THE FEDERAL BUDGET FOR 1991

HEARING

BEFORE THE

COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

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THE FEDERAL BUDGET FOR 1991

WEDNESDAY, FEBRUARY 7, 1990.

FISCAL YEAR 1991 BUDGET OVERVIEW HEARING

CONGRESSMAN JAMIE L. WHITTEN, CHAIRMAN

WITNESSES

HON. NICHOLAS F. BRADY, SECRETARY, U.S. TREASURY DEPARTMENT
HON. RICHARD DARMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
HON. MICHAEL J. BOSKIN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

OPENING STATEMENT OF HON. JAMIE L. WHITTEN, CHAIRMAN

Chairman WHITTEN. The committee will come to order.

Please, may I take a minute to say thanks to our good friend, Jack Brooks, Chairman of the Judiciary Committee. It has been our custom in recent years to use his full committee room at his insistance, and he is letting us use the Judiciary Committee room. He used to let us use the Government Operations Committee hearing room when he was Chairman of that Committee.

We are grateful to say that he is back with us again and doing fine after his prolonged illness.

Today we have with us Treasury Secretary Brady, OMB Director Darman, and Chairman Boskin, Chief Economic Adviser to the President. Since this budget was filed on the 29th of January, it has been the subject of debate on television and several committee hearings.

We meet here today to welcome you, and we are glad to have you here, and we will appreciate the discussions, which we will have. Since under the law we are called on to overview the budget, what it is, and what we think about it, I think it well to lead off with a discussion of our thoughts about the budget.

WHERE WE ARE

The first thing we need to do is recognize where we are, what the facts are.

To start with, we have a national debt of over three trillion dollars ($3,000,000,000,000), the largest debt in history. This comes not because of our Appropriations Committee, for since 1945 with the approval of Congress, we have held the total of appropriations bills to $173,555,500,000 below the Presidents' requests and billions below Mr. Reagan's requests.

We meet here at a time when the President has proposed a 120,000 cut in the number of troops in Europe, which is only natural under conditions we face; at a time when each newspaper and each magazine carries stories of business cutbacks in operations leaving more and more people facing unemployment in every section of the Nation.

Under President Reagan, he and the Congress recognized that we faced a recession. At the request of the President, we were asked to handle the jobs bill, which we did. It provided for productive jobs for the Nation's communities, cities, and counties, and it worked. It did stop the recession.

At that time we had revenue-sharing which lasted for 14 years. It benefited with productive jobs, more than 39,000 communities, cities, and counties, in each of which there was a determination to get a dollar's worth of value for a dollar spent. With today's debt, it is easy to see, like an individual, we must produce more than we spend and export more than we import. To do that we must reverse our course, in my opinion.

FISCAL YEAR 1991 BUDGET REQUEST

Now we turn to this year's budget. Few people differ with the President in his picture of what he would like the Nation to be. Unfortunately, the budget that has been presented calls for substantial reductions of more than $13 billion ($13,000,000,000) in over 80 important existing programs.

We are asked to cut the programs that have been so important in developing and maintaining a strong Nation. If the costs of these programs are pushed back on the States, the poorer States will get poorer and the Nation will decline as the gap widens between rich and poor, and between one region and another. We must maintain a strong, productive, and growing United States.

NEED TO CREATE EMPLOYMENT OPPORTUNITIES

As servicemen and servicewomen are discharged and bases closed, we must seek ways to keep the men and women employed in productive jobs, and my suggestion is that the bases be used like the old-time Civilian Conservation Corps, where we could transfer the troubled youth from their drug-ridden neighborhoods to our open spaces for rehabilitation and productive conservation work.

NEED FOR INVESTMENT IN AMERICA

We have supported investment in America for many years. I was pleased to hear the President say, and I quote:

> Yes, we are going to invest in America. This administration is determined to encourage the creation of capital, capital of all kinds. Physical capital: Everything, from our farms and factories to our workshops and production lines, all that is needed to produce and deliver quality goods and quality services.

I agree with that statement. But, I do not think this is the time to reduce the Economic Development Administration by $189,000,000 or the Small Business Administration by $102,000,000, all of which is in the budget before us.

We need to recognize that investment spending lasts for years to come. Our national future depends on this type of spending. This

means we have to look at ways to distinguish investment spending, which will last for years, from other spending, the benefits of which last only a few days.

As the world has changed, with the opening up of Eastern European countries, there will be intense competition for those markets. We need to be in a position for our basic industries, agricultural, manufacturing, and mining, to take advantage of those opportunities.

We must be prepared to promote production of more than we need and offer for sale in world trade at competitive prices, as authorized by law, that which we produce which is in excess of our needs. That is what our competitors do. We need to give to our producers the same support other nations give to theirs, and use our existing authority to limit imports to our needs.

We need to use the Commodity Credit Corporation to have the producer get a fair price from the buyer, as he did for 48 years, and to return our acreage to use and regain our normal share of world markets. We need to ensure that in creating a sound environment that we return agricultural land to production for world markets in this competitive world, for historically it has been our chief earner in world trade.

USER FEES PROPOSED AGAIN

The budget as submitted, counts on an increase of $2,050,000,000 from user fees which are not presently authorized, for the use of public facilities. We need to ensure that if those fees are enacted, they are available for operation of the facilities that produced such fees.

We must see to it that our highways, our bridges, our schools, our harbors, our health facilities, our air and water, our national parks, our wildlife refuges, and our public lands are in good shape and that the revenues produced from fees from their use be made available for the operation of those facilities to reduce the level of any general fund monies needed to ensure no further deterioration occurs.

NEED TO LOOK TO NATIONAL GUARD AND RESERVES

Because of the rapid changes in Europe, and the proposal by the President to reduce the troop levels in Europe by about 120,000, it is important that the defense of the country not be weakened. Cuts in military spending will undoubtedly be made, but in order to make sure that real defense is not weakened, we will need to turn more and more to the National Guard and Reserves.

They contribute to the local economy during the week, and train largely on the weekends. We must do this for the future of our country. This is not the time to reduce the Guard and Reserves as proposed in the present budget.

THE "JOE" FOWLER STORY

Some years ago, after a hearing on the request for funds for the War Production Board, a board set up to increase U.S. productive capacity sufficient to meet our needs in the event of war with Russia. I was walking with the Director, Henry "Joe" Fowler, later

Secretary of the Treasury. Joe had this to say to me, "Jamie", he said, "If I were in charge of Russia, and thought I faced a war with the United States, I would declare five years of peace. Just think," he said, "if we were to call all our servicemen home, if we were to cancel military contracts and all the related industries folded up, we would have the doggonedest depression we ever saw."

This was a very disturbing statement. I knew we had good times, more cars than we could park, more clothes than we could wear, and more of just about everything.

I could see what he was talking about, and yet I could not believe we had to have a war or preparation for war to have domestic prosperity.

After quite a bit of thought, I realized that war or preparation for war was not necessary for prosperity, that it was the extra effort which created prosperity; that if we were just smart enough to expend that extra energy in improving our country, building roads and dams, renewing our bridges, building schools and public improvements, we would have the same prosperity and end up a rich country. Whereas, in war or preparation for war, we use up our metals, our woods, our fuels, and all the rest and end up a poorer country in material wealth.

That is where we stand today.

PRODUCTIVE EMPLOYMENT NECESSARY IF WE ARE TO AVOID A RECESSION

We need to be prepared to provide funds for construction of highways, buildings and the like and to restore programs such as revenue-sharing, which we had for 14 years, aiding more than 39,000 units of government, in order to keep the economy going and to avoid a recession. This would be similar to what we did with the jobs bill which we handled at the insistence of President Reagan in 1983. We must continue investing in our country. I am proud of what we have been able to do for our country.

Since 1934, when we started meeting local problems with national programs, our real wealth has increased 41 times, and since 1940, 36 times. In order to ensure our continuation as a great Nation, we need a defense that is backed by public support and a strong economy. Strength that can come only by protecting and developing the Nation's resources, our real wealth. Our Nation is all we have to back up our money. Development of our rivers and harbors, construction of schools, highways, airports, along with an educated healthy populace, with adequate food and nutrition following from a strong agricultural base, provides the foundation for our national strength and our future.

IMPACT OF DEBT ON ECONOMY

My colleagues and other friends, we must realize we live in a competitive world. We cannot run it, and certainly in the last 10 years we have proved we cannot fund it. We owe the greatest debt in the history of the world. We have got to live with it. We could repudiate it, we could pay it or live with it.

If we live with it, about $170 billion a year gets taken off the top of our income to pay the interest on the debt. As I read recently,

when we owed that debt to ourselves, it was one thing because it turned over inside our country. As it is, we owe it abroad, and it just means it is a drag on our economy.

I have pointed these things out because our responsibility is to overview the budget that is submitted, and in the process I thought it well to show what we see in the budget after studying it. I notice that our good friend from OMB has cut the volumes down from 7 to 1, and I said it just makes it seven times as hard to find anything. But be that as it may, this is what our reaction is.

I raise these points at the outset since the budget itself and the debate on it has made public the other situation.

We expect to go into detail on Rural Development and Agriculture later, for rural America is about 80 percent of the country. The failure to pass on the cost to the buyer and the failure to sell what we produce are major factors in causing our three trillion dollar debt.

We will take these facts up with the Secretary of Agriculture when he is before our Committee.

At this time I yield to my colleague, the Ranking Member, Mr. Conte.

Mr. CONTE. Mr. Brady, Mr. Darman, and Mr. Boskin, I would like to welcome you to one of the few congressional hearings required by law, and that is probably why a number of us are here. The alternative is jail, although by the end of the day I may regret my choice. Last year, though, we didn't hold one of those hearings and nothing happened, and I was kind of hoping to become a repeat offender.

But here we are. At least this is not the Budget Committee, Mr. Darman. I was really shocked with the reception you received from the House Budget Committee. The distinguished Members over there saying the budget stinks, it lies, calling you a Dr. Jekyll-Mr. Hyde. I know better than that.

These are the very same members who participated and crafted one of the biggest shames of all times, and that was last year's reconciliation bill. That bill, which required $14 billion in deficit reductions, included $7 billion in one-time savings through gimmicks like the Post Office off-budget and timing shifts. It achieved only about really $3 billion in true savings, aside from sequesters. When I was a kid we had a saying for that. "He who smelt it, dealt it." Not as good as your Pac Man stuff, you know, but——

This is the committee that suffered the consequences of the Budget Committee's failure to achieve meaningful reduction, and from your walking away from the April budget summit agreement. Under Gramm-Rudman when other committees fail, it is our Appropriations Committee that must cut across the board, and we got hit. We got hit coming, and we got hit going. We passed 13 bills within the tight guidelines of the budget agreement, and then we suffered 1.4 percent across the board cut worth $4 billion on top of that.

First of all, Mr. Darman, do you repent?

I will have further questions later on, Mr. Chairman.

Chairman WHITTEN. I would like to point out here, if I may, that the budget document in past years included a table, Net Effect of

Major Enacted Legislation on Receipts. The budget document this year does not include that and neither do your statements.

We would like for you to bring that forward and add that to it.

[The information follows:]

THE SECRETARY OF THE TREASURY,
Washington, March 1, 1990.

House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: During the February 7, 1990 Budget Overview hearing, you asked if the Administration could provide you with estimates of the revenue impact of tax legislation enacted since 1981.

Please allow me to explain why the President's budget did not contain the table you discussed.

In the 1991 Budget, the table (table B-3 on page A-49) only included revenue estimates for legislation enacted since January 1988. Based on methodological and related problems with preparing the table back to 1981, the Treasury Department believes that the table should include only the previous three calendar years. These reasons are detailed below:

Producing the estimates for the enacted legislation table requires Treasury to estimate separately each provision in each piece of legislation. Approximately 24 different pieces of tax legislation have been enacted since January 1, 1981. The number of provisions in each Act varies, but for major Acts such as the Tax Reform Act (TRA) and Tax Equity and Fiscal Responsibility Act, the number can be in the hundreds. TRA, for example, contained approximately 260 provisions. The total number of provisions to be reestimated is probably close to 2,500.

Estimating the revenue effects of legislation enacted as many as nine years ago is an imprecise exercise. Estimators must estimate the revenue effect of each provision in each piece of legislation separately by guessing what the world would be like if the enacted law and all subsequent legislation had not been passed. This is extremely difficult because major tax legislation was enacted in nearly every year of the 1980's and because the legislation, particularly the Tax Reform Act of 1986, could have affected the entire U.S. economy. As more laws are enacted, it becomes increasingly difficult to untangle the effects of each specific piece of legislation.

The uncertainty that results from these interactions calls into question the validity of the data requested. Our concern over the accuracy of such estimates has led us to the conclusion that the public is better served by providing a table with estimates for the past three years rather than trying to interpret the complex interaction of legislation of the previous nine years. The attached example illustrates the difficulty in untangling the effects of different legislation.

The 1985 Budget was the first to tie the tables to the start of an Administration. Before 1985, the tables only included legislation enacted in the previous three calendar years, regardless of Administration changes. The 1991 Budget merely restores the pre-1985 practice.

Mr. Chairman, I hope you find this information regarding the tax table useful and responsive to your request. I hope you'll let me know if you have any further questions or if I may be of service to you in any way.

Sincerely,

NICHOLAS F. BRADY,
Secretary.

Attachment.

ENACTED LEGISLATION TABLE—EXAMPLE

This note describes how the Office of Tax Analysis would construct a table that shows the revenue effect of all enacted tax legislation since January 1, 1981. To estimate the effects of each legislative act, we need to reestimate the revenue effects of each provision in each act.

An example might be helpful.

1. The Economic Recovery Tax Act of 1981 (ERTA) contained a provision that allowed tax-free reorganizations for financially-troubled thrifts. To estimate the effect of that provision, we have to guess what the world would be like if no subsequent legislation affecting thrift institutions (including the Financial Institution Reform, Recovery and Enforcement Act) (FIRREA) had been passed. Given the enormous problems facing the thrift industry, it is difficult to envision a world where nothing would have been done to help the industry.

2. The Tax Reform Act of 1986 (TRA) contained a provision that repealed tax-free reorganizations, effective at the end of 1988. To estimate the effect of the TRA provision, we need to be consistent with the estimates for the ERTA provision, but we also need to determine how many reorganizations would take place at the end of 1988, when the tax-free benefits would expire.

3. But the Omnibus Budget Reconciliation Act of 1988 (OBRA) extended the tax-free reorganization provision through the end of 1989. OBRA also cut back the benefits of the provision and extended the provision to include financially-troubled banks. Thus, the rush of deals at the end of 1988 was not as great as it might have been. To estimate the effects of the OBRA provision, we need to again be consistent with the earlier estimates and try to guess what the world would be like without FIRREA.

4. The Financial Institution Reform, Recovery and Enforcement Act of 1989 repealed the provision effective May 10, 1989. But FIRREA provided for substantial Government assistance to the thrift industry. This means that the way the thrift industry looks today may be nothing like the way it would look if FIRREA had not been enacted.

In coming up with the estimates for the tax-free reorganization provisions, the estimator also needs to take into account changes in provisions that affect financial institutions more generally. These include changes in corporate tax rates and changes in bad-debt write-off rules.

Chairman WHITTEN. May I say again that we respect and like the President of the United States. He is a fine person with a fine family. We like each of you. We have got a common problem we need to work together, and we are glad to have you here.

I say that advisedly. I think we can work this out, but the best way to work out anything is to recognize where we are in determining where we shall go. I think it well for us, as we have in the past, to limit our colleagues to 10 minutes at this stage. Then later we can come back and those who may care to use more time, we can work that out afterwards, but in going around, think it would be well to stick to 10 minutes.

It is my pleasure to recognize the Secretary of Treasury, Mr. Brady.

OPENING STATEMENT OF HON. NICHOLAS F. BRADY, SECRETARY OF THE TREASURY

Secretary BRADY. Thank you, Mr. Chairman, Members of the Committee. I am pleased to meet with you to discuss the Bush Administration's fiscal policy plans. Director Dick Darman will discuss the budget. Mike Boskin will discuss economic prospects.

My oral comments will concentrate on economic policy consequences of the budget and international economic conditions. Three points should be emphasized. First, significant progress has been made in reducing the unacceptable levels of budget deficits.

Second, we have a long way to go. Third, intensified effort is required to meet the challenges created by changing economic conditions and national priorities. The unfunded budget deficit has declined from $221 billion in fiscal year 1986 to $152 billion in fiscal year 1989.

It is expected to fall to $123 billion during the current fiscal year and to a target of $63 billion in fiscal year 1991. This administration has submitted a budget proposal that meets the statutory target without increasing taxes.

Government spending has been restrained while revenues have increased, both in the direction of historic averages. The combination of spending restraint and improving revenues has narrowed

the size of the unified budget deficit as a share of the GNP from 6.3 percent in 1983 to 2.9 percent last year.

Further progress to 2.3 percent in fiscal year 1990 and 1.1 percent in fiscal year 1991 is anticipated. The reduction of annual budget deficits combined with continued economic growth has reversed the upward trend in the national debt held by the public as a proportion of the GNP. Progress in controlling budget deficits has improved the U.S. record in comparison to other major industrialized nations.

This effort is part of our particular commitment to the international coordination process of domestic economic policies, part of the progress in reducing federal budget deficits as a result of the growing size of annual surpluses in the Social Security Trust Fund.

The surpluses are expected to continue to grow rapidly until the baby boom generation begins to retire early in the next century. If annual Social Security surpluses are taken out of the unified budget calculations, the budget deficit with the Social Security surplus removed declined from $238 billion in 1986 to $204 billion in fiscal year 1989.

Using the same procedure, the figure is projected to decline to $185 billion in 1990 and $143 billion in 1991. The bottom line is, the budget deficit measured both ways, has declined since its peak. Since its peak in fiscal year 1986, the impact of these surpluses on the deficit flows from the use of the unified budget rules.

These rules were adopted in 1968 based on the recommendations of a national commission appointed to study the federal budget.

The unified budget was designed to measure the broad economic impact of Federal outlays and revenues. These rules were in place in 1983 when the Social Security Trust Fund decisions were made. They were used in 1985 when the Gramm-Rudman-Hollings budget deficit goals were established, and they were well understood in 1987 when the original Gramm-Rudman-Hollings targets were revised.

Measured against the targets established, progress toward the mandated goals has occurred. Our fiscal year 1991 budget sets forth in separate columns the projected deficit before and after the effects of the Social Security Trust Fund surpluses are considered, so analysts can form their own opinions.

The Bush administration is committed to reducing perspective budget deficits and has prepared a formal proposal to protect the Social Security Trust Fund starting in fiscal year 1993, when the required unified budget balance is achieved.

Budget plans must recognize the link between investment and the achievement of national long-term goals. Investment in new plant and equipment, new technology and human resources through better education, training and health care depends upon a matching supply of savings.

However, the United States now has a national savings rate that is lower than the historical average and far below the record of most industrial countries. The necessary improvement in the national savings rate should become the crucial test in evaluating budget outlay and revenue strategies.

The administration's budget for fiscal year 1991 recognizes the link between long-term national priorities and the need to increase investment and national saving by emphasizing two basic points.

First, continue to reduce prospective budget deficits to achieve a balanced position by 1993 by controlling budget outlays and Federal credit programs.

Second, enact the Savings and Economic Growth Act of 1990 to increase family savings, stimulate long-term investment, and strengthen the ability of American businesses to compete in a challenging global economy.

Improving the national savings rate will help to lower the cost of capital to American firms and provide funds for investment in our future. There are three parts to this new legislation.

First, a new family savings account is established to give most American families an incentive to save through a simple and understandable tax-free savings program.

Second, the capital gains rates are reduced and restructured to lower the cost of capital, encourage new long-term investment, create jobs, and enhance the Nation's economic competitiveness.

Third, an innovative home ownership initiative is created to provide millions of Americans who aspire to buy their first home a better opportunity to do so.

Turning now to current economic conditions, the U.S. economy is now in its eighth year of sustained real growth, a record peacetime expansion, during which output gains have averaged 4 percent annually. The strong economic growth achieved during this expansion has been accompanied by a stable inflation rate.

Perhaps the most impressive aspect of this sustained growth has been the creation of nearly 21 million jobs since the beginning of the current expansion. As a result, the civilian unemployment rate has fallen from a peak of 10.8 percent in November 1982 to the 5.3-percent level that persisted during the last half of 1989.

Economic growth has also been solid and sustained in the international economy, both reflecting and contributing to the long upswing in the United States. This favorable outlook partly reflects the intensified economic policy coordination process among the major industrial nations.

Exchange rates are now more consistent with economic fundamentals than they were several years ago. Growing world trade flows due in part to bilateral and multilateral U.S. efforts to promote an open trade and investment system have supported this expansion.

As a result, the U.S. merchandise trade deficit has been reduced from a record of $152 billion in 1987 to an estimated $110 billion in 1989, and important progress has been made in regaining lost market shares.

Turning to the international debt strategy, the strengthened debt strategy has been broadly endorsed by the international community and is being used in actual financing packages.

Three countries—Mexico, the Philippines and Costa Rica—have already adopted IMF and World Bank reform programs and have reached agreement on commercial bank financial packages. A few days ago, Mexico signed an historic agreement which offers substantial benefits for the Mexican economy.

I believe we have made significant progress in implementing this strengthened debt strategy which continues to encourage growth-oriented reforms. It is flexible and it can be tailored to individual country needs, and its benefits are real.

Finally, the historical developments in Eastern Europe merit strong U.S. support. In Poland, for example, the administration has taken a lead role in coordinating the establishment of a $1 billion stabilization fund. The President's fiscal year 1991 budget proposals request an additional $300 million for a special assistance initiative for countries of Eastern Europe to help evolve towards democratic societies with market-oriented economies.

In conclusion, the realities of domestic and international responsibilities indicate that budget plans must be made in the context of continuing fiscal restraint. The fiscal year 1991 budget proposals and five-year planning horizons concentrate on two priorities:

One, reducing Federal budget deficits; and two, reallocating resources into investments in people, technology and capital goods to prepare for the future. This will yield several major benefits. It will curtail Federal borrowing demands in the financial markets, leading to better access to capital and lower interest rates for consumers, homebuyers, business, State and local governments.

It will reduce the share of the national output allocated to government and shift resources into the private sector, creating more jobs and improving our international competitiveness. It will help ease the burden of future interest payments on the accumulated national debt, and it will provide increased flexibility to the Federal Reserve system in the management of monetary policy.

Finally, economic events have demonstrated the relationship between saving and investment and the problems created by our disappointing national saving rate. The fiscal year 1991 budget provides a package of incentives to enhance national saving and investment.

When combined with a significant reduction of budget deficits, these recommendations will improve the national saving rate without increasing tax burdens on the American people. The Bush administration is prepared to work with Congress to enact a responsible budget for 1991.

Thank you, Mr. Chairman.

Chairman WHITTEN. We now recognize the Budget Director, Mr. Darman.

OPENING STATEMENT OF HON. RICHARD G. DARMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DARMAN. Thank you very much, Mr. Chairman.

Chairman Whitten, Ranking Republican Congressman Conte, distinguished members of the Appropriations Committee, it is a pleasure to appear before you to discuss the President's budget.

We have provided you with copies of the budget. It is, as you know, almost 1600 pages long, and I know you have many questions. In the interest of preserving time, therefore, I would offer only these brief introductory points.

First, while fully protecting the social safety net, the President's budget proposes record high levels of investment for research and

development, over $70 billion; space, up 24 percent for NASA; education, $24.6 billion; Head Start, up half a billion dollars; drug abuse control, up 41 percent in outlays; modernization of the national air space system, up 45 percent; environmental initiatives and many other investments in America's future.

Second, to fund these initiatives while also bringing the deficit down to the Gramm-Rudman-Hollings target, the budget relies upon the following: An increase of $83.5 billion in receipts from continued economic growth; a 2.6-percent decrease in real growth for the Department of Defense; selected reductions in other discretionary programs where returns on investment are, we believe, comparatively low; $13.9 billion from new receipt measures, and $5.6 billion in user fees and offsetting collections; and finally, selected reforms of mandatory programs to slow their excessive and unsustainable growth.

We have overall requested a 2.8-percent increase in discretionary budget authority. For your convenience, I have provided the committee with a table displaying the President's fiscal year 1991 budget request by Appropriations Committee and subcommittee. You will notice only a few recommendations, and in many of those cases they reflect anomalies such as the absence next year of a decennial census.

We welcome the opportunity to work with this distinguished committee as we try to meet our shared responsibilities to keep the economy growing, to expand opportunity, to help protect the needy, to bring the deficit down, and to invest in America's future.

Mr. Conte, I would thank you and thank the chairman for what seems to be a very much kinder and gentler reception, and for your introductory remarks. I would also agree with you that this committee does suffer and the programs it invests into suffer when others in the Congress don't produce, so I believe we have a common interest in trying to get entitlement spending under control.

It has, as we all know, grown to the point where it has now taken just about 50 percent of the budget. If you combine that with interest the chairman has referred to, you get to well over 60 percent of the budget. That is simply not sustainable over the long term, so we have to get the debt down, which will bring the interest down, but we have also got to get entitlements under control to protect the ability to invest in just those areas that I have highlighted, and in which I know that this committee has an interest. We would look forward all the more to working with you in this respect this year.

I would say, further, Mr. Conte, that many of your colleagues, as you know, are interested in reforming Gramm-Rudman-Hollings. In many cases that unfortunately means to escape the discipline of Gramm-Rudman-Hollings.

I think the more prudent direction in which to go would be to preserve the discipline, but if there are to be any reforms, to make sure that sequester applies more fairly to some of the programs, the many programs that are now exempt.

I don't say it should apply to every one of them, but it should apply to a much broader base so that if we fail to produce through

the natural legislative process, there isn't such a heavy burden of sequester that is borne by this committee.

In any case we do, for all these reasons, look forward to working cooperatively with you on this committee, and look forward to responding to your questions after hearing from Chairman Boskin, with the Chairman's permission.

Chairman WHITTEN. Thank you very much, Mr. Darman. It is a pleasure to work with you.

I would like to say for the record, it is a fact what has happened and we are trying to foresee what is going to happen, and we are trying to point out what we better do as a Nation to get ready for it. We appreciate your statement, and all of you, we would like to work with you.

At this time, I recognize Mr. Boskin, the Chief Economic Adviser to the President.

OPENING STATEMENT OF HON. MICHAEL J. BOSKIN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. BOSKIN. Chairman Whitten, Representative Conte and other distinguished members of the committee, it is a pleasure to appear before you today to discuss the administration's economic outlook and programs and their relationship to the budget.

The administration has developed a new set of forecasts for the U.S. economy. Much attention focuses on the Nation's economic outlook, both for its usefulness and indication of where the economy is headed, and at this time of the year, as it affects projected budget outcomes.

That is understandable and important, since the budget outcomes, how much and how we spend, how much and how we tax, as well as the path of the budget deficit, affect the allocation of the entire Gross National Product, the course of the economy, and the prospects for the Nation's future economic well-being.

Although the projections that are contained in my written testimony and that are in the budget are the result of a comprehensive review of the economic situation by the troika, the net result is an outlook that differs only in detail from our forecast presented in conjunction with the July 1989 mid-session review, which as I will discuss in a moment, but only briefly, has thus far turned out to be right on the mark.

The current projection reflects our basic assessment that while the United States' economy is temporarily growing more slowly, basically the economy is healthy. It also reflects our view that the administration's approach to policy—emphasizing competitive markets, avoiding unnecessary regulation and where regulation is necessary, making sure it is sensible, increasing national saving and policies to take the long view—best promote sustained economic growth.

The conditional nature of these forecasts must also be emphasized. They assume the implementation of the Administration's economic policy proposals, especially the efforts to reduce the budget deficit, balance the budget, and then reduce the national debt thereafter.

That is, they form a consistent package with the President's budget proposals, and this must be born in mind in understanding the outlook, in understanding the rationale of the budget proposals, and in comparing our outlook with those of other private forecasters and others who do not—who make other assumptions about the likely course of policy.

Let me say a word briefly about the course of the budget deficit. Secretary Brady has emphasized that we have made substantial progress and we need to do substantially more, and we have major proposals to raise our national saving rate and reduce the budget deficit.

Let me just say that we reject the notion that has been advanced by some people that because no apocalyptic event, such as a major acceleration of inflation or a sharp recession has ensued with the large budget deficits in the 1980's since the expansion began, is not cause to be lulled into complacency.

A continued large budget deficit drains the Nation's private saving pool, raises the cost of capital, lowers the rate of investment, and/or worsens our external imbalances, and it is necessary in order to make further progress on these, to reduce the budget deficit.

If the proposals are adopted, we should be able to achieve the President's primary economic policy goal achieving the highest possible rate of sustainable economic growth. Policies presented in the budget elsewhere are designed to enhance the economy's potential for growth and ensure that it operates more frequently at its potential than it has in previous decades.

I might add that achieving these goals is also conditional on the rejection of various proposals that have come forth lately that would have adverse economic consequences. For example, proposals that would add huge costs and disruption to the economy while achieving only tiny incremental environmental benefits relative to the President's aggressive clean air proposals or that would remove large amounts of revenue from the revenue base.

Our economic projections span the next five years. For 1990 as a whole we expect GNP to expand at about a 2.5 percent rate, 2.6 percent rate on a fourth quarter to fourth quarter percent basis, 2.4 percent on a year over year basis.

That estimate is four-fifths of the average rate of growth the United States has experienced on average over the last 40 years. We expect that as the economy has been slightly below its potential this year that it will rebound, particularly as 1990 progresses in the second half of the year and into 1991, closer to its full potential and thereafter we have it growing at around its long-run potential growth rate of 3 percent.

We would like to see that potential growth rate raised, and we believe that some of the policies we are proposing have the potential for doing so. Secretary Brady and Director Darman have emphasized the commitment of the President and the entire administration not only to meeting the targets but strengthening the process.

I will not belabor that. Let me say a word about what we see happening in inflation and unemployment rates. We expect inflation gradually to decline and unemployment to be relatively stable,

perhaps rising a very slight amount early in this year with a little more slack in the economy and then receding as the year progresses and into 1991.

We expect interest rates to decline. This is the area that has gotten the most attention in the economic forecasts, and let me just say that the very strong fiscal discipline that we are proposing plus the commitment demonstrated by the President to the Gramm-Rudman-Hollings process last year, the principle of including offsets for supplemental appropriations and making sure the sequestration sticks subject to the concerns that you raised and that Director Darman elaborated, we believe are likely in combination with these proposals to have a salutary effect in financial markets.

If enacted, they will convince participants in financial markets that the Federal Government's drain on the financial markets will be on a long-term downward trend. Let me also emphasize that economic forecasting is an inexact science. I think we must admit, however, that the uncertainty in the forecast is as important to highlight as the forecast itself.

For the first time in the budget and the Economic Report of the President, we present alternative scenarios or paths the economy might follow and highlight not only what that means for the economy, but for budget outcomes. Let me also comment on one or two other points.

There are many people, forecasters who are impressed by the very length of the economic expansion who conclude that it is old and must end soon. While the economy is growing more slowly currently, it is important to point out that economic expansions don't come with any preset expiration date.

While recessions may occur in the future, economic research has shown that the likelihood of an expansion ending does not rise with its age. Rather, recessions tend to be the result of policy mistakes, adverse external shocks, or imbalances such as economy-wide building inventory over accumulation. While any of these are always possible, at the present time they appear unlikely.

For example, inventory imbalances thus far have been largely contained to the automobile sector. Let me just briefly review, since we are often accused of providing scenarios that are optimistic and people do not pay enough attention to the conditional nature of the forecast, let me emphasize that in 1989 the economy behaved almost exactly as we expected it to in the mid-session review. That, undoubtedly, was not only due to the hard work of the troika agencies, but also undoubtedly there was some luck involved.

But just to give you a quick summary year over year, real GNP growth was exactly what we had forecast. The unemployment rate was exactly what we had forecast to the tenth and ten-year treasury note rates were exactly what we had forecast. We were off by one-tenth of a percentage point for short-term interest rates, two-tenths for consumer price inflation.

In fact, we were too pessimistic at mid-year. Inflation actually came down more in the second half of the year than we had forecast relative to the first half. Again, economic forecasting is an inexact science, and while there was a certain amount of luck, it is also instructive to note that the administration forecast was more

accurate than each and every one of the 52 private forecasters that are regularly surveyed by blue chip indicators, and that the mid-session forecast—I hope, by the way, that it will not be the case, that we will ever produce a forecast that is less accurate than all 52.

This was the most accurate forecast in the history of the mid-session review of the budget dating back to the late 1970's. I think it is worthy. In the spirit of full disclosure I might emphasize, others we are compared to: the Congressional Budget Office has underestimated real growth each and every year for the last three years. It has overestimated consumer inflation each and every year for the last three years and eight of the last nine years has overestimated short-term interest rates.

I have a deep and abiding professional regard for the hard-working people and the professional staff in the Congressional Budget Office, but I think it is time we turned to how the policies can achieve and enhance our economic growth rather than quibbling over minor differences in assumptions and forecasts.

Let me finally say that the administration's fiscal, monetary, trade, and regulatory policies are designed to achieve the goal of achieving the highest possible sustainable rate of economic growth. Those principles include reducing the federal budget deficit until it is balanced in fiscal year 1993 and reducing the national debt thereafter, supporting a credible monetary policy program that sustains economic growth while predictably controlling inflation, continuing to lead the world to freer trade and more open markets and eliminating undesirable regulation, avoiding unnecessary regulation. And when regulation is necessary, make sure it is done in a way in which goals balance benefits and cost and employs flexible cost-effective methods.

Those are ambitious but realistic goals, but it is important to be ambitious and realistic. Setting the nation's sights too low will guarantee mediocre performance. Setting unrealistic goals will guarantee disappointment. I will now be happy to answer any questions you or other members of the committee will have following.

Chairman WHITTEN. Mr. Boskin, you are in somewhat the same fix we are in here when you read the tea leaves about the future. As it was taught, economics is not an exact science. We welcome your views. We are trying to point out that the evidence is apparent to us, at least, that we may be in for some terrible unemployment for which we need to be prepared to meet.

[Prepared statements of Committee witnesses follow:]

PREPARED STATEMENT OF NICHOLAS F. BRADY

Chairman and Members of the Committee, I am pleased to meet with you to discuss the Bush Administration's fiscal policy plans. These hearings provide a useful opportunity to analyze our budget spending and revenue strategies. Director Darman of the Office of Management and Budget will present a comprehensive overview of our budget proposals, and Chairman Boskin of the Council of Economic Advisers will analyze the underlying economic conditions and prospects. My comments will concentrate on the economic

policy consequences of the budget and recommendations for revenue initiatives.

Three points should be emphasized. First, significant progress has been made in reducing the unacceptable level of budget deficits. Second, we still have a long way go to to achieve our budget goals. Third, intensified effort is required to meet the challenges created by changing economic conditions and national priorities.

The budget deficit has declined from $221.2 billion in FY 1986 to $152.0 billion in FY 1989. It is expected to fall to $123.8 billion during the current fiscal year and to a target of $63.1 billion in FY 1991. Our budget proposal fulfills the mandatory Gramm-Rudman-Hollings deficit reduction goal.

Government spending has been restrained while revenues have increased. Federal outlays as a percent of the gross national product are expected to decline from a peak of 24.3 percent in FY 1983 to a proposed 20.9 percent level in FY 1991, a figure closer to the 19.2 perecent average which existed from 1950 through 1979 (see Exhibit 1). Budget revenues have increased during the current cyclical expansion and are estimated to total 19.9 percent of the GNP in FY 1991, a figure well above the average of 18.0 percent during the 1950 to 1979 period.

Spending restraint has reduced the growth rate of Federal budget outlays. Expressed in nominal terms, the pace of annual spending increases was cut nearly in half in the Fiscal Years 1983 through 1989 from the prior seven-year period. Further deceleration for the years through 1995 is projected in our new budget. Adjusting for the effects of inflation reduces the pace of the slowdown but the pattern is similar (See Exhibit 2).

The combination of spending restraint and improving revenues has narrowed the size of the budget deficit as a share of the GNP from 6.3 percent in 1983 to 2.9 percent last year. Further progress to 2.3 in FY 1990 and 1.1 percent in FY 1991 is anticipated (see Exhibit 3).

The reduction of annual budget deficits, combined with continued economic growth, has reversed the upward trend in the national debt held by the public as a proportion of the GNP (see Exhibit 4).

If we continue to reduce prospective budget deficits and achieve the lower interest rate targets, the rising trend of interest payments on the national debt as a share of total budget outlays will be reversed (see Exhibit 5).

Progress in controlling budget deficits has improved the U.S. record in comparison with other major industrial nations. This effort is part of our commitment to the G–7 international coordination of domestic economic policies (see Exhibit 6).

Part of the progress in reducing Federal budget deficits is the result of the growing size of annual surpluses in the Social Security Trust Fund. A surplus results when current benefits paid are less than the payroll tax contributions collected, interest earned on the government bonds held by the trust fund, and taxes levied on social security benefits. The size of the annual surplus has grown from $262 million in FY 1984 to $52.4 billion in 1989. The estimated surplus for FY 1990 is $62.0 billion and for FY 1991 it is $80.3 billion. The annual surpluses are expected to continue to grow rap-

idly until the baby boom generation begins to retire early in the next century.

The impact of social security surpluses on the deficit follows from the use of the unified budget rules. These rules were adopted in 1968, based on the recommendations of a national commission appointed to study the Federal budget. The unified budget was designed to measure the broad economic impact of Federal outlays and revenues. Those rules were in place in 1983 when the Social Security Trust Fund decisions were made. They were used in 1985 when the Gramm-Rudman-Hollings budget deficit goals were established. And they were well understood in 1987 when the original Gramm-Rudman-Hollings targets were revised.

The targets adopted were based on the unified budget concept. Measured against the targets established, process toward the mandated goals has occurred. Our FY 1991 budget sets forth in separate columns the projected deficit before and after the effects of the Social Security Trust Fund surpluses are considered so that analysts can form their own opinion. The Bush Administration is committed to reducing prospective budget deficits and has prepared a formal proposal to protect the Social Security Trust Fund starting in FY 1993 when the required unified budget balance is achieved.

ECONOMIC POLICY GOALS AND THE BUDGET

Budget plans are used to identify national priorities and coordinate the allocation of resources. They also are used to develop government policies to help achieve the fundamental goals of sustaining economic growth, improving our national ability to compete in an integrated world economy, and adjusting to fundamental demographic trends. Budget plans must recognize the link between investment and the achievement of national long-term goals. Investment in new plant and equipment, new technology, and human resources through better education, training, and health care depends upon a matching supply of savings. To avoid excessive reliance on foreign capital inflows to finance these crucial investment needs, national savings must be increased.

The disappointing national saving rate is a combination of personal, business, and government saving behavior. There has been erosion in the personal saving rate in recent years and business saving has remained stable only because of higher depreciation charges. However, chronic Federal budget deficits, reported in 28 of the 29 fiscal years, have become the dominant factor in the overall decline in the national saving rate (see Exhibits 7 and 8). The United States now has a national saving rate that is lower than its historical average and far below the record of most industrial nations. The key policy action for correcting this serious problem will be to reduce future Federal budget deficits.

The necessary improvement in the national saving rate should become the crucial test in evaluating budget outlay and revenue strategies. The Bush Administration budget for FY 1991 recognizes the link between long-term national priorities and the need to increase investment and national saving by emphasizing two basic policies.

First, continue to reduce prospective budget deficits to achieve a balanced position by FY 1993 by controlling budget outlays and Federal credit programs.

Second, enact The Savings and Economic Growth Act of 1990 to increase family savings, stimulate job-creating, long-term investment, and strengthen the ability of American businesses to compete in a challenging global economy. Improving the national saving rate is important because it will help to lower the cost of capital to American firms and provide the funds for investment in our future. There are three parts to The Savings and Economic Growth Act:

A new Family Savings Account is established to give most American families an incentive to save through a simple and understandable tax-free savings program.

Capital gains tax rates are reduced and restructured to lower the cost of capital, encourage new long-term investment, create jobs, and enhance the Nation's economic competitiveness.

An innovative Home Ownership Initiative is created to provide millions of Americans who aspire to buy their first home a better opportunity to do so.

Current Economic Conditions

While the budget provides an important guide for the long-term development of the economy, the pace of economic activity is an important factor in determining the size and shape of the budget. Economic conditions affect the level and composition of outlays, particularly those benefits indexed to inflation and those spending programs designed to act automatically to offset some of the cyclical shifts in activity. The status of the economy also influences the level and compostion of revenues.

The U.S. economy is now in its eighth year of sustained real growth—a record peacetime expansion—during which output gains have averaged 4 percent annually. The strong economic growth achieved during this expansion has been accompanied by a low and stable inflation rate. The annual increase in the CPI averaged 3.7 percent from 1982 through 1989, dipping down to 1.1 percent in 1986 when oil prices fell. It never exceeded 4.6 percent in earlier years, in sharp contrast to the double-digit rates at the turn of the decade. Excluding the more volatile food and energy components, inflation has held in the 4 to 5 percent range throughout most of the expansion. The reduction and stabilization of inflation rates have helped to reduce interest rates from the unusually high levels at the beginning of the 1980s.

Perhaps the most impressive aspect of the sustained growth of the U.S. economy has been the creation of nearly 21 million jobs since the beginning of the current expansion. New jobs have been created in the services industries, such as transportation, public utilities, wholesale and retail trade, government functions, and diverse health, education, and financial activities. Employment has increased in the manufacturing and construction sectors as well. As a result, the civilian unemployment rate has fallen from a peak of 10.8 percent in November 1982 to the 5.3 percent level that persisted during the last half of 1989. Figures compiled by the Organization for Economic Cooperation and Development (OECD) cover-

ing the period 1965 to 1988 dramatize the rapid growth of new jobs in the United States.

EMPLOYMENT INCREASES 1965–1988

[In millions]

	United States	Japan	OECD Europe
1965–1988	41.9	12.8	10.0
1975–1988	27.4	7.9	5.9

International Economic Conditions

Economic growth also has been solid and sustained in the international economy as well, both reflecting and contributing to the long upswing in the United States. Growth in the OECD industrial economies should be about 3 percent in real terms in 1990, the eighth consecutive expansion year, and inflation pressures are well contained. Prospects also are good for strengthened growth in the developing countries, especially as the outlook for the large debtor nations improves.

This favorable outlook partly reflects the intensified economic policy coordination process among the major industrial nations. Exchange rates are now more consistent with economic fundamentals than they were several years ago. The U.S. dollar has been relatively stable since 1987, especially when compared with the sharp appreciation of value from July 1980 through February 1985 and the subsequent rundown through 1987. Growing world trade flows, due in part to bilateral and multilateral U.S. efforts to promote an open trade and investment system, have supported the expansion. And a much higher level of confidence about the future has led to an increase in investment in industrialized countries. U.S. producers in particular have benefited from improved international competitiveness, as well as expanded export opportunities resulting from stronger growth abroad. As a result, the U.S. merchandise trade deficit has been reduced from a record $152 billion in 1987 to an estimated $110 billion last year, and important progress has been made in regaining lost market shares (census basis). But while progress has been made in reducing large global external imbalances, these imbalances, especially in the United States, Japan and Germany, still are too high and need to be reduced further.

Economic ties between the United States and Japan are increasingly close. This development offers both challenges and opportunities. Japan now is our second largest trading partner (after Canada), and our second largest source of foreign direct investment (after the United Kingdom). But our very large bilateral trade deficit with Japan changed very little last year.

In addition to continuing efforts within the G–7 coordination process and bilateral discussions with Japan on specific trade issues, we have been engaged in very intensive talks with the Japanese about structural impediments to external adjustment in the U.S.-Japan Structural Impediments Initiative (SII). While it is too early to assess progress in these obviously delicate discussions, we

remain convinced that lasting progress can be made only by addressing the fudamental roots of Japanese external surpluses.

Our dialogue with EC member countries and EC institutions also has expanded as the EC has embarked on its ambitious "1992" program. The Administration supports EC economic integration. However, it is important for the United States, the world economy, and the EC countries themselves that the 1992 integration efforts result in an open and dynamic Europe. We have seen some important progress on the issue of reciprocity in financial services over the past year. We are monitoring these developments closely.

The EC is pursuing monetary union, including the possible creation of an EC central bank and common currency. Given the potential importance of these developments, I decided last September to create a special policy group under the Economic Policy Council to look at the implications of these possible monetary and financial changes in Europe. The Bush Administration is continuing to focus on trade policy questions with the EC. Many of these issues are being discussed in the Uruguay Trade Round. The President's top trade policy priority is the successful completion of the Uruguay Round.

Turning to the international debt strategy, the proposals I made last spring have been broadly endorsed by the international community and are being used in actual financing packages. Three countries—Mexico, the Philippines and Costa Rica—already have adopted IMF and World Bank reform programs and have reached agreement on commercial bank financial packages.

The Mexican agreement, in which virtually all banks are participating, offers substantial benefits to Mexico. Commercial bank debt will be reduced immediately by about $7 billion and by a total of at least $10 billion (or 20 percent) by 1992. Annual commercial bank interest payments will be cut by nearly one-third, contributing to total debt service savings of $12 billion by 1992. And the burden of repaying $35 billion in principal—or more than 80 percent of Mexico's remaining medium-term bank debt—has been completely lifted through the purchase by Mexico of collateral in the form of zero-coupon bonds. In practical terms for Mexico, the overall debt service reduction provided by the package effectively represents savings of domestic resources amounting to about 4 percent of GNP. The immediate effect of the agreement has been to improve confidence in the Mexican economy, as evidenced by the fall in domestic Mexican interest rates and sizable private capital inflows during 1989.

The financing packages in the Philippines and Costa Rica differ from the Mexican package in order to meet the particular needs of each country. The Philippine's agreement places more emphasis on new money, while permitting direct buybacks of bank debt. The buyback, completed earlier this month, retired $1.3 billion (20 percent) of the Philippine's commercial bank debt. The Costa Rican package involves a buyback, debt service reduction, and special measures to address accumulated interest arrears. Costa Rica's debt service payments and outstanding debt to commercial banks will each be reduced by about 60 percent, more in line with its ability to pay.

We have made significant progress in implementing a strengthened debt strategy which encourages far-reaching debtor reforms. It is flexible and can be tailored to individual country needs. And its benefits are real, with the potential to foster sustainable growth.

Turning to a different issue, the historic developments in Eastern Europe have many dimensions—political as well as economic—and merit strong U.S. support. The basic objectives of the Administration are to support the development of multi-party democracies and economic reforms aimed at promoting market-oriented economies with strong private sectors. We have taken a major step in implementing these objectives in Poland. The United States took a lead role in coordinating the establishment of a $1 billion stabilization fund to support limited convertibility of the Polish zloty and made a $100 million grant contribution out of funds provided by the Support for Eastern European Democracy Act (the "SEED Act"). The United States also helped organize a $500 million bridge loan to Poland to help meet temporary liquidity needs and made available $200 million as our contribution to the bridge facility.

The SEED Act calls for additional measures to be taken in Poland and Hungray, and the Administration is working on their implementation. The President's FY 1991 budget proposals request an additional $300 million for a special assistance initiative for countries in Eastern Europe. Finally, we are cooperating with other countries and international institutions to review opportunities, such as the proposed European Bank for Reconstruction and Development, to help Eastern European countries evolve toward democratic societies with market-oriented economies.

Summary

In summary, the seven-year economic expansion in the United States has provided sustained growth, a stable inflation rate, creation of nearly 21 million jobs and lower unemployment rates, improved balance among major sectors and geographical areas, and, since 1987, a more stable U.S. dollar foreign exchange rate and improvement in the merchandise trade and current account deficits.

Mid-Session Budget Review Economic Forecast

Last July, the Bush Administration published its first economic forecast as part of the Mid-Session Budget Review. Administration economists adjusted the previous forecast, published in the FY 1990 budget last January, by reducing the projected rate of real economic growth and raising the anticipated inflation rate and interest rate estimates for 1989 and 1990.

RECORD OF ADMINISTRATION MID-SESSION FORECAST

[Percent]

	Administration forecast	Actual
Real GNP (4th Q to 4th Q)	2.7	[1] 2.4
GNP Price Deflator (4th Q to 4th Q)	4.2	[1] 3.8
Total Unemployment Rate (Yr. Aver.)	5.2	5.2
3-Month T-Bill Rates (Yr. Aver.)	8.0	8.1

RECORD OF ADMINISTRATION MID-SESSION FORECAST—Continued

[Percent]

	Administration forecast	Actual
10-Year T-Notes (Yr. Aver.)	8.5	8.5

[1] Department of Commerce Estimates, 1/26/90.

According to the preliminary estimates released on January 16, 1990, real GNP increased 2.4 percent in 1989, a pace very close to the Bush Administration figures published last July and above the more pessimistic projections of most comparable economic forecasts. There was, however, considerable deceleration of activity during the last three months of the year and a worrisome acceleration of food and energy prices at year-end. These developments will have to be watched closely.

Economic Assumptions Used in Preparing the FY 1991 Budget

The Bush Administration's new forecast continues to anticipate moderate growth this year, followed by some acceleration in 1991, and then a return to the long-term growth track of 3.0 percent. Most private forecasts agree that an economic recession will not occur in 1990 even though there is some disagreement about the probable growth rate of real output. Most of the Administration's economic assumptions are quite similar to the expectations of private forecasters.

ADMINISTRATION FORECAST FOR 1990 COMPARED WITH BLUE CHIP CONSENSUS

[Percent]

	Administration January 1990	Blue Chip January 1990
Real GNP (4th Q to 4th Q)	2.6	1.8
GNP Price Deflator (4th Q to 4th Q)	4.2	4.0
Consumer Price Index (4th Q to 4th Q)	4.1	4.2
Unemployment Rate, Civilian (Yr. Aver.)	5.5	5.6
3-Month T-Bills ([1]) (Yr. Aver.)	6.7	7.1
10-Year T-Notes ([1]) (Yr. Aver.)	7.7	N/A

([1]) Calendar year average.

THE FY 1991 BUDGET SPENDING PLANS

The President's FY 1991 budget continues to make progress on his agenda announced last February for "Building a Better America." But there is still much that must be done to achieve his goals. First, we must enforce tough spending restraint to create a more realistic match of spending claims with public resources generated by a tax system that the American people will support. The Bush Administration budget for FY 1991 calls for outlays of $1,233.3 billion, an increase of only $36.1 billion over the estimated spending this year. This modest increase of 3.0 percent in FY 1991 continues the recent slowdown in the growth of budget outlays. For example, for the years FY 1976 through FY 1982, Federal spending increased

at a rapid annual rate of 11.8 percent, a pace more rapid than the average nominal GNP growth rate of 10.5 percent. During the last seven years, the growth rate of government spending has slowed to an annual pace of 6.3 percent while the nominal GNP has increased at an average 7.3 percent rate. Our budget proposal calls for further deceleration in the growth of spending to an annual rate of 4.4 percent through FY 1995, or nearly 2½ percentage points slower than the projected growth rate of the nominal GNP. As the overall economy grows more rapidly than the pace of Federal budget increases, the relative burden of government spending is eased.

Second, costly new initiatives that reach beyond our prospective public resources are avoided. There are, of course, a large number of existing and potential claims against our budget resources. The difficult part is ranking the proposals so that we allocate government funds to the highest priorities.

Third, within the overall context of spending restraint, there will be continuing changes in the rankings of competing claims. This process reflects the familiar axiom that "every good thing is not equally good." Examination of the three major spending components of the budget demonstrates the realignment process that is underway. The prospective growth of defense spending has been constrained, reflecting changing international conditions. During the five-year budget plan presented, defense spending is projected to rise from $296.3 billion in FY 1990 to $318.6 billion by FY 1995. As a result, defense spending as a share of the GNP will decline from 5.4 percent, in 1990 to 4.2 percent in 1995. As a share of budget outlays, defense spending will drop from 24.8 percent of the total in FY 1990 to 21.6 percent by FY 1995. Stated in constant 1982 dollars, defense spending is projected to decline from $265 billion in FY 1989 to $241 billion in FY 1990 and to $214 billion by FY 1995. The entitlements and mandatory spending programs are projected to grow approximately at the rate of inflation. Spending for nondefense discretionary programs is expected to have the largest relative gain.

PROPOSED CHANGES IN BUDGET SPENDING CATEGORIES FOR FY 1991 FROM FY 1990

[In billions of dollars]

	FY 1990	FY 1991	Dollar change	Percent change
Defense	296.3	303.3	+6.9	+2.3
Nondefense Discretionary Programs	201.6	213.6	+12.0	+6.0
Entitlements and Mandatory Programs	562.5	589.7	+27.2	+4.8

Fourth, within the overall strategy of rigorous spending restraint, we must meet our existing responsibilities while addressing new opportunities and needs.

REVENUE ESTIMATES AND TAX POLICY INITIATIVES

The Bush Administration's fiscal policies contained in the FY 1991 budget build upon the major reforms adopted in the Tax Reform Act of 1986. Treasury projects budget revenues of $1,170.2

billion for FY 1991. This is $96.8 higher than the estimated FY 1990 total, following an anticipated increase of $82.8 billion during the current fiscal year and $81.7 billion last year. The estimated 9.0 percent increase in revenues in FY 1991 is based on sustained economic growth and several important tax policy initiatives. Revenue increases also are projected to continue in future budget years (see Exhibit 9 for revenue estimates).

THE SAVINGS AND ECONOMIC GROWTH ACT

In his State of the Union address, President Bush announced The Savings and Economic Growth Act. This legislation is designed to promote long-term investment, to encourage Americans to save, and to make it easier for them to purchase their first home. The President's proposal has three components.

Family Savings Accounts

An important goal for the 1990s is to increase the rate of growth of America's productive capacity. A higher growth rate will significantly increase living standards for both current and future generations. More saving is needed, however, to finance increases in our productive capacity. We believe that the Federal Government should foster an environment that is conducive to saving, and we have a plan to achieve this objective.

The Family Savings Account (FSA) proposal will allow nondeductible contributions of up to $2,500 per taxpayer with a maximum of two accounts per family. Contributions will be allowed for single people with adjusted gross incomes (AGIs) below $60,000, for those filing as heads of households with AGIs below $100,000, and for married couples filing joint returns with AGIs below $120,000. These contributions will be allowed in addition to contributions to qualified pension plans, IRAs, 401(k) plans, and other tax-favored savings plans.

After meeting the required seven-year holding period, all savings, including the accumulated earnings, can be withdrawn tax-free. Withdrawals of savings within three years of the time the contribution was made will result in a 10-percent excise tax penalty and an income tax on the asociated earnings. Earnings on funds withdrawn between three and seven years after contribution will be subject only to income tax with no excise tax penalty.

We believe that the FSA will provide a significant savings incentive, at a cost to the Treasury that is less than many other savings proposals. During fiscal year 1991, the revenue loss would be only $200 million; for the entire period 1990–95, it would be $4.7 billion. These estimates refer only to possible revenue losses and do not include prospective revenue gains resulting from increased investment and economic growth.

The new FSAs will provide a simple and understandable program for Americans to save and to see the benefits of changing their behavior. The time limit is short enough to focus attention on specific personal goals—saving to buy a home, preparing for education costs, for building a financial reserve to protect against unexpected events, or for any high-priority goals. This is a program that

Americans can understand and can participate in without having to wait for long periods to have access to their savings.

From the Government's perspective, the FSA does not cause large revenue losses at the beginning of the program because the contributions are not tax deductible. Instead, the earnings created by the contributions to FSAs will be exempt from taxes. This approach is prudent because we can evaluate the results as we proceed.

Capital Gains Tax Rates

The President's first initiative for enhancing savings and investment involves a permenent reduction and restructuring of the capital gains tax rate. To encourage Americans to invest for longer periods of time, we believe that the tax rate for capital gains on real estate, timber, homes, farms, land and corporate stock should be reduced based on the length of time an asset has been held. If an investment is held for one year, a 10 percent exclusion of the capital gain from taxable income would be permitted. If the asset had been held for two years, an exclusion of 20 percent would be permitted. The maximum exclusion would be 30 percent of the gain for assets held three or more years. For a taxpayer in the 28 percent bracket, this proposal would generally result in effective tax rates of 25.2 percent, 22.4 percent, and 19.6 percent, respectively.

For the balance of 1990, the 30 percent exclusion would apply to all qualified capital assets held at least one year. For assets disposed of in 1991, the 30 percent exclusion would apply to assets held at least two years, and the 20 percent exclusion would apply to assets held at least one year but less than two years. The general rule would apply in 1992 and all years thereafter. The excluded gains would be subject to the alternative minimum tax. Prior depreciation deductions would be recaptured in full at ordinary rates of tax.

The Bush Administration believes that a reduction in the tax rate on capital gains would have several beneficial effects:

The capital gains tax rate is an important component of the cost of capital, which in turn directly affects the ability of U.S. companies to compete worldwide. Our major trading partners already have either a lower capital gains tax rate or no tax on capital gains at all. By reducting capital gains tax rates, we will enhance our ability to compete.

Individuals will invest in growing businesses only when they believe they will reap an adequate reward if the venture succeeds. By reducing the tax rate on capital gains, we will encourage venture capital investments and entrepreneurial activities. The result will be a better economy, more jobs, and a higher standard of living for all Americans.

The sliding scale of capital gains tax rates would provide incentives for longer-term investments. To the extent individuals are rewarded for holding their investments longer, stability in the marketplace is enhanced. Stable investment opportunities will increase the creation of jobs and improve economic performance.

The benefits of a capital gains tax rate cut would be widely distributed throughout the population. In a typical year, 14 million tax returns (representing approximately 26 million taxpayers)

report income from the sale of capital assets. Based on 1987 tax data, about 41 percent of net long-term capital gains were reported by taxpayers with adjusted gross income, excluding capital gains or losses, of under $50,000. Furthermore, it is estimated that nearly one-half of all taxpayers report capital gains in one year or another during their life.

Our capital gains tax rate reduction will raise revenues for deficit reduction—$4.9 billion in fiscal year 1991 and $12.5 billion during the period 1990–1995.

Home Ownership Initiative

As I have already noted, individuals can continue to use current-law IRAs. To encourage home purchases, we also propose that the 10-percent excise tax on early withdrawals of up to $10,000 from these IRAs be waived if the funds withdrawn are used for a first-time purchase of an eligible home. This would enhance the attractiveness of IRAs as a vehicle for savings.

OTHER INITIATIVES

Incentives for Research and Experimentation

Technological change plays a central role in economic growth. The Government has an important function in promoting innovation and basic research. In order to do so, we believe that the 20-percent Research and Experimentation (R&E) tax credcit, which is set to expire on December 31, 1990, should be made permanent. Research is inherently a long-term process. Making the R&E tax credit permanent will permit businesses to begin projects without having to worry that the credit will be withdrawn in the future. For the same reasons, we propose to make permanent the current rules for the allocation of research expenses between U.S. and foreign-source income. Permanent R&E expense allocation rules are essential for U.S. companies to plan for the long-term costs of their R&E programs.

Internal Revenue Service (IRS) Items

The IRS currently allocates substantial resources to direct enforcement of the tax laws. The IRS has identified a number of enforcement areas in which receipts could be increased by introducing management reforms which would change the allocation of existing resources within the IRS. In most cases, these management reforms would accelerate the receipt of taxes, penalties, and interest. In addition, the IRS has identified a number of ways in which enforcement could be improved by the application of additional resources. Therefore, we propose an increase in IRS funding for tax-law enforcement and for collection of delinquent taxes, penalties, and interest. Taken together, the new resources and the management reforms would lead to revenue increases of $3 billion in FY 1991.

Finally, we have proposed specific user fees. These fees are intended to allocate the costs of government facilities and services to the actual beneficiaries. Specific exemptions and deductions are included to encourage certain actions.

Extensions of Current Programs

We also propose the extension of certain programs that would otherwise expire:

The 3 percent excise tax on telephone service, currently scheduled to expire after December 31, 1990, should be made permanent.

The low-income housing credit encourages the private sector to construct and rehabilitate the Nation's housing stock and make it available to the working poor and low-income families. It should be extended through 1991.

The deduction for 25 percent of health insurance costs by self-employed individuals should be made permanent. This provision would mitigate the disparity between the owners of incorporated and nonincorporated businesses.

A more detailed description of all the receipts proposals is included in the Treasury Department's publication, General Explanations of the President's Budget Proposals Affecting Receipts.

The Bush administration believes that our budget goals can be achieved without increasing tax burdens on the American people. The pledge to submit a budget proposal that meets the statutory target without increasing taxes has been fulfilled. The budget outlay and revenue proposals presented in the FY 1991 budget are intended to sustain the impressive economic progress of the last seven years.

CONCLUSIONS

The realities of domestic and international responsibilities indicate that budget plans must be made in the context of continuing fiscal restraint. After many years of simply adding new government spending programs to existing budget claims, we must rearrange existing priorities.

The FY 1991 budget proposals, and the five-year planning horizon, concentrate on two priorities.

Reduce future Federal budget deficits.

Reallocate resources into investments in people, technology, and capital goods to prepare for the future.

The proposed budget will achieve a significant reduction in the deficit to $63.1 billion in FY 1991, meeting the statutory target. Reaching this ambitious goal will yield several major benefits.

It will curtail Federal credit demands in the financial markets, leading to better access to capital and lower interest rates for consumers, home buyers, business firms, and state and local governments.

It will reduce the share of total national output allocated to government and shift resources into the private sector creating more jobs and improving our international competitiveness.

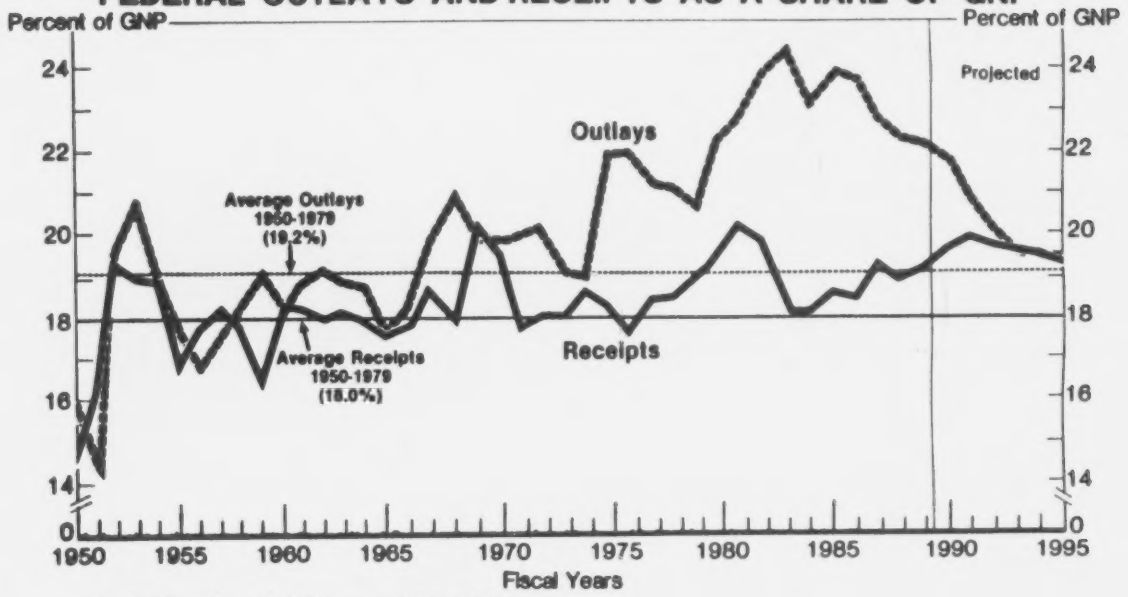
It will help ease the burden of future interest payments on the accumulated national debt.

Achieving the dual goals of reducing prospective budget deficits and realigning spending priorities is dependent upon sustaining economic growth that provides tax revenues and creates investment opportunities. Our budget proposals assume moderate growth in the 2½ percent zone in 1990, although the quarterly pattern may fluctuate, and that inflation remains under control. This out-

come will lead to the eighth year of continuous economic expansion. A second benefit of continued budget spending restraint and deficit reduction will be the increased flexibility provided to the Federal Reserve System in the management of monetary policy.

Finally, the most important aspect of the FY 1991 budget is the emphasis placed on long-term national goals. Economic events have demonstrated the relationship between saving and investment and the problems created by our disappointing national saving rate. The FY 1991 budget provides a package of incentives to enhance national saving and investment. When combined with a significant reduction of budget deficits, these recommendations will improve the national saving rate without increasing tax burdens on the American people. The Bush Administration is prepared to work with Congress to enact a responsible budget for FY 1991.

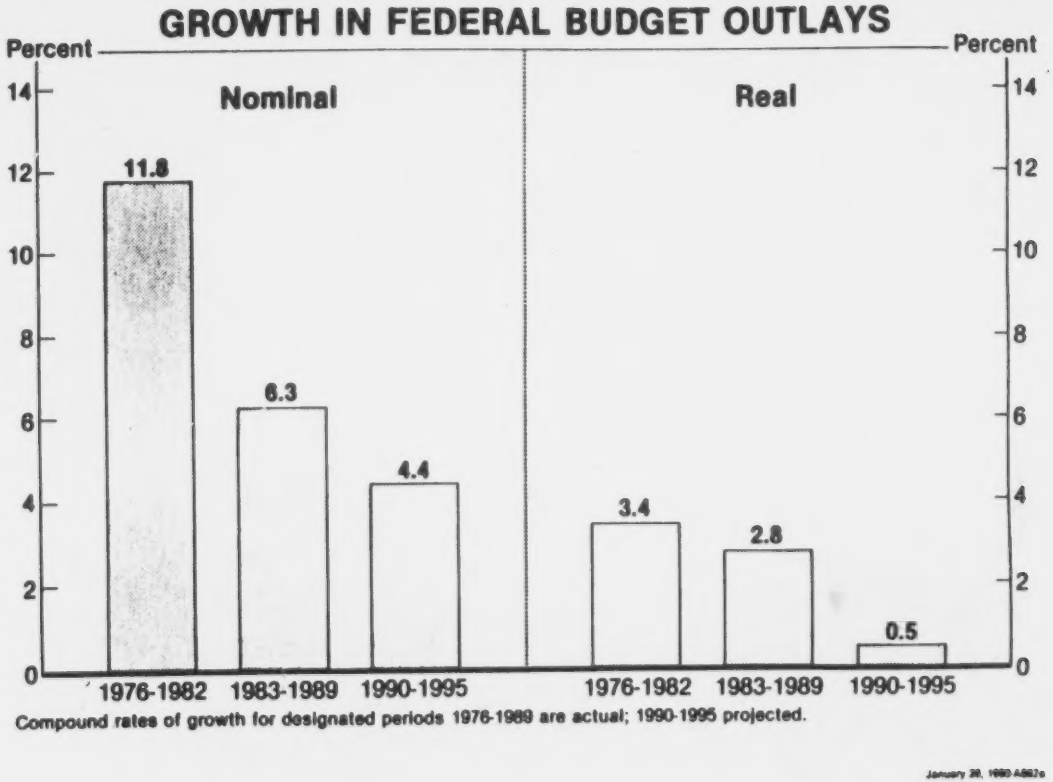
FEDERAL OUTLAYS AND RECEIPTS AS A SHARE OF GNP



Note: Outlays and receipts include on- and off-budget items.

January 29, 1980 A817

EXHIBIT 1

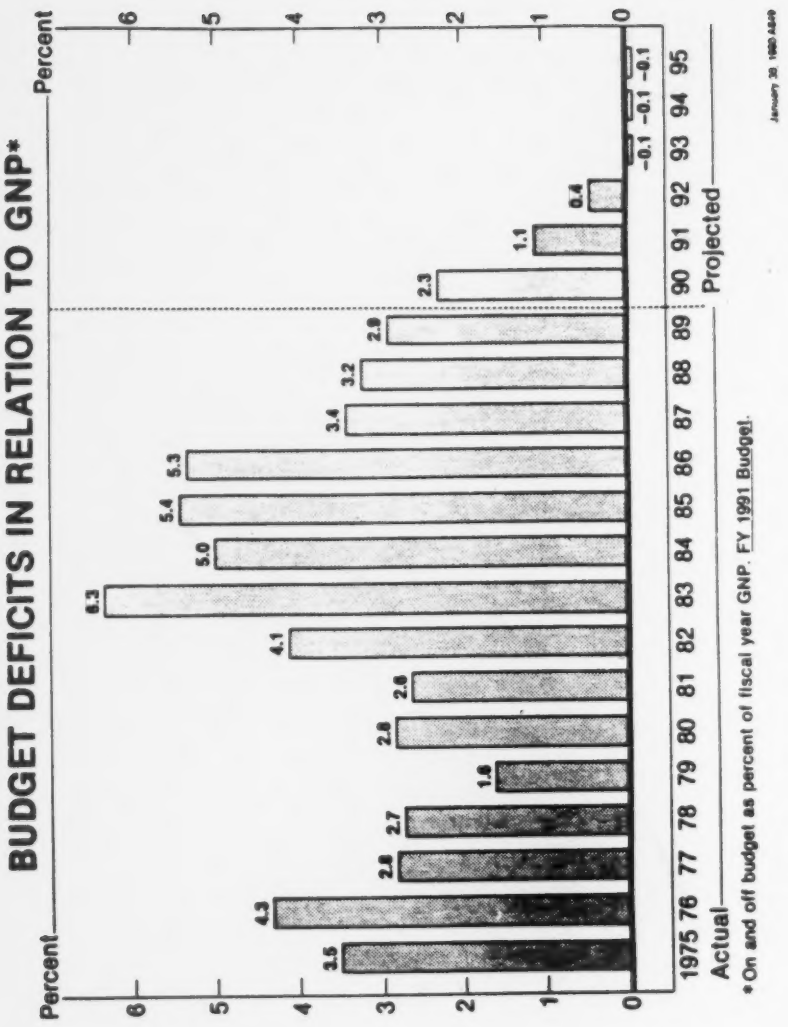


Compound rates of growth for designated periods 1976-1989 are actual; 1990-1995 projected.

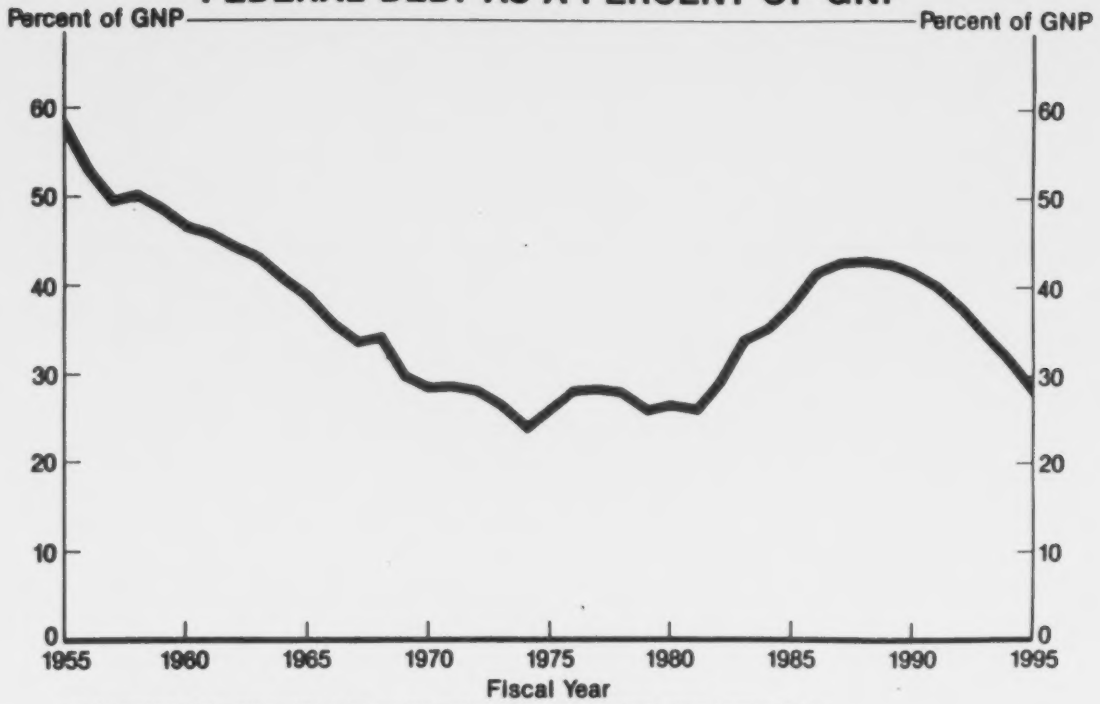
January 28, 1990 A662a

EXHIBIT 2

EXHIBIT 3


BUDGET DEFICITS IN RELATION TO GNP*
Percent
Percent
0
1
2
3
4
5
6
3.5
4.9
2.8
2.7
1.6
2.8
2.6
4.1
6.3
5.0
5.4
5.3
3.4
3.2
2.9
2.3
1.1
0.4
-0.1
-0.1
-0.1
1975 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95
Actual
Projected
*On and off budget as percent of fiscal year GNP. FY 1991 Budget.

FEDERAL DEBT AS A PERCENT OF GNP



Note: Debt held by the public, including the Federal Reserve. Administration forecasts for FY-1990 thru FY-1995.

January 29, 1990 A8529

EXHIBIT 4

NET INTEREST AS A SHARE OF FEDERAL OUTLAYS

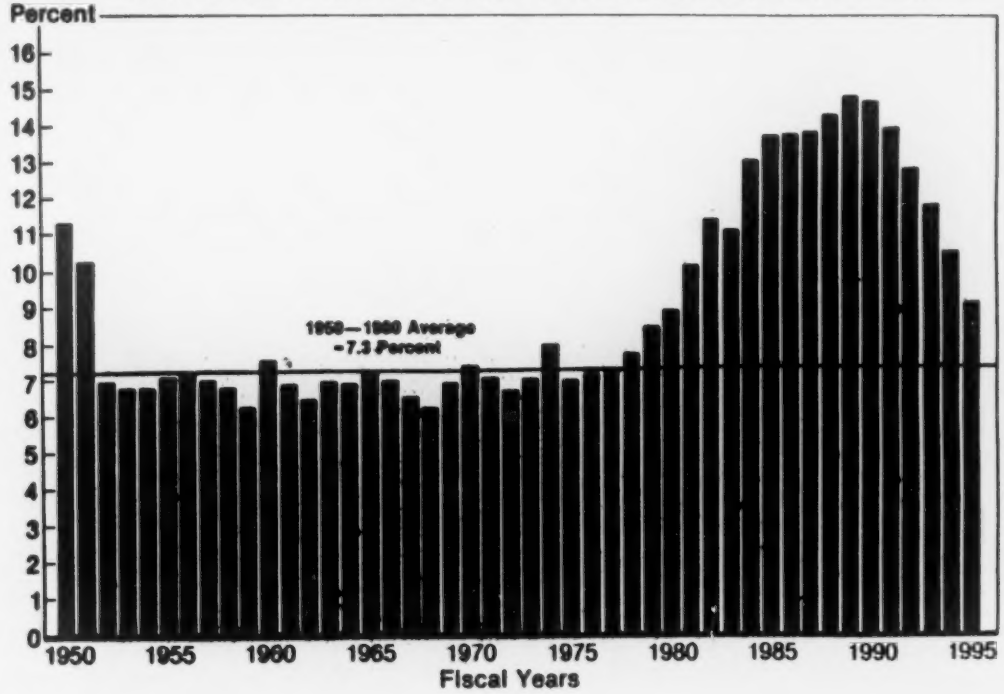


EXHIBIT 5

U.S. AND FOREIGN BUDGET DEFICITS

(Percent of GNP; Total Government)

	1988
Canada	−2.6
France	−1.3
Germany	−2.1
Italy	−10.6
Japan	+1.3
United Kingdom	+0.8
United States	−2.0
Federal	−3.0
State and Local	+1.0

Source: OECD Economic Outlook, December 1989.

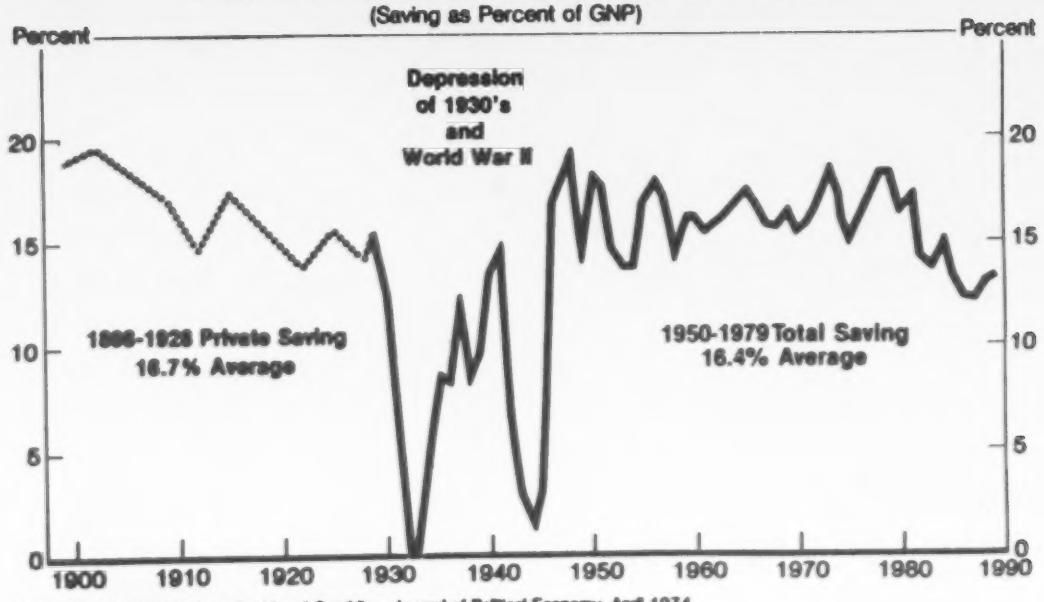
Total Government is aggregate deficit or surplus of government sector (federal, state, and local). Data are on a national income account basis and are for the calendar year.

January 10 1990 4233

EXHIBIT 6

U.S. GROSS SAVING RATIO, 1898-1989

(Saving as Percent of GNP)



Note: 1898-1928 data from David and Scadding, Journal of Political Economy, April 1974.
Data following 1928 are from U.S. Department of Commerce.

EXHIBIT 7

Gross Saving and Investment as a Share of Gross National Product

	1950's	1960's	1970's	1980-88	1987	1988	1989(p)
Gross Domestic Saving	16.1	16.3	16.7	14.1	12.2	13.2	13.4
Private[1]	16.5	17.1	18.4	18.0	16.1	16.6	16.9
Personal[1]	5.1	5.1	6.4	5.1	3.7	4.4	5.4
Corporate Undist. Profits	2.8	3.5	2.5	1.7	1.7	1.6	0.9
Depreciation Allowances	8.7	8.5	9.6	11.0	10.8	10.5	10.6
Government[1]	−0.4	−0.8	−1.8	−3.8	−3.8	−3.4	−3.5
Federal	0.1	−0.3	−1.7	−3.9	−3.6	−3.0	−2.9
State & Local[1]	−0.6	−0.5	0.0	0.1	−0.3	−0.4	−0.6
Gross Investment	16.3	16.2	16.7	14.2	12.1	13.0	12.9
Gross Private Domestic	16.2	15.5	16.4	15.8	15.5	15.4	14.8
Business Fixed	9.6	9.9	10.7	10.9	9.8	10.0	9.8
Net Foreign	0.1	0.6	0.2	−1.6	−3.3	−2.4	−1.9
ADDENDUM:							
Net Domestic Saving[2]	8.1	8.6	7.9	3.4	1.7	3.0	3.2
Private[1]	8.6	9.4	9.8	7.7	6.0	6.8	7.1
Government[1]	−0.5	−0.8	−1.9	−4.3	−4.3	−3.8	−3.9
Personal Saving Rate[3]	6.8	6.7	8.0	5.4	3.2	4.2	5.5

Note: Small difference between gross domestic saving and gross domestic investment represents the statistical discrepancy. Other components may not add exactly to totals due to rounding.

1. Employee pension funds of state and local governments are allocated to personal saving to match the treatment of private pension funds.
2. Net saving equals gross saving minus depreciation allowances. It is shown as a share of net national product (GNP minus depreciation).
3. Personal saving as a percent of disposable personal income.

p-preliminary.

January 29, 1990 AG11

EXHIBIT 8

PRESIDENT'S BUDGET PROPOSALS AFFECTING RECEIPTS

	Fiscal Years					
	1990	1991	1992	1993	1994	1995
	($'s in billions)					
Capital Gains Tax Rate for Individuals	0.5	4.9	2.8	1.2	1.7	1.4
Family Savings Accounts	—*	—0.2	—0.6	—1.0	—1.3	—1.6
Permanent Research and Experimentation Tax Credit	—0.1	—0.5	—0.9	—1.1	—1.3	—1.6
Research and Experimentation Expense Allocation Rules	0.0	—0.4	—0.7	—0.8	—0.8	—0.9
Energy Tax Incentives:						
Credit for Intangible Drilling Expenses	0.0	—0.2	—0.3	—0.3	—0.4	—0.4
Credit for Tertiary Recovery	0.0	—*	—*	—*	—*	—*
Modify Oil and Gas Depletion Rules	0.0	—*	—*	—*	—*	—*
Revise AMT for Exploratory Drilling by Independents	0.0	—0.1	—0.1	—0.1	—0.1	—0.1
Enterprise Zone Tax Incentives	0.0	—0.1	—0.2	—0.3	—0.5	—0.8
Establish Refundable Child and Dependent Care Tax Credit	0.0	—*	—*	—*	—0.1	—0.1
Deduction for Special Needs Adoption	0.0	—*	—*	—*	—*	—*
Penalty-Free IRA Withdrawals for First-Time Home Buyers	—*	—*	—0.1	—0.1	—0.1	—0.1
Extension of Low-Income Housing Credit	—*	—0.1	—0.3	—0.4	—0.4	—0.4
Extend Special Rules for Health Insurance Costs of Self Employed Individuals	—*	—0.2	—0.4	—0.5	—0.5	—0.6
Extend Social Security Coverage to Certain Employees of State and Local Governments	0.0	2.1	2.2	2.3	2.5	2.7
Medicare Hospital Insurance (HI) for State and Local Employees	0.0	1.7	1.7	1.7	1.7	1.6
Airport and Airway Trust Fund	0.0	0.5	0.8	0.9	0.9	1.0
Extension of Telephone Excise Tax	0.0	1.5	2.5	2.7	2.9	3.1

PRESIDENT'S BUDGET PROPOSALS AFFECTING RECEIPTS
(Continued)

	Fiscal Years					
	1990	1991	1992	1993	1994	1995
	($'s in billions)					
Treatment of Salvage Value by Property and Casualty Companies	0.2	0.2	0.2	0.2	0.1	0.1
Payroll Tax Deposit Stabilization	0.0	0.9	2.2	−3.1	0.0	0.0
Permit Limited Use of Excess Pension Funds to Pay Retiree Health Benefits	0.0	0.2	0.4	0.2	0.0	0.0
Initiate IRS Management Reforms	0.1	2.5	1.1	0.5	−*	−0.4
Increase IRS Enforcement Funding	0.0	0.5	0.8	1.3	1.5	1.6
Miscellaneous Proposals Affecting Receipts:						
Increase D.C. Contributions of CSRS	0.0	*	*	*	0.1	0.1
Increase Ad Valorem Fees on Shippers	0.0	0.3	0.3	0.3	0.4	0.4
Increase and Expand SEC Fees	*	0.1	0.1	0.1	0.1	0.1
Modify Collection Period of Telephone Excise Tax	0.0	0.1	*	*	*	*
Extend Abandoned Mine Reclamation Fees	0.0	0.0	0.1	0.3	0.3	0.3
Establish CFTC Fee	0.0	*	*	*	0.1	0.1
Change Collection Point for Liquor Occupation Taxes	0.0	*	*	*	*	*
Extend OASDHI to D.C. Employees	0.0	*	*	*	*	*
Extend IRS User Fee	0.0	0.1	0.1	0.1	0.1	0.1
Establish FEMA Fees	*	*	*	*	*	*
Extend and Expand Railroad UI Reimbursable Status	0.0	−*	−*	0.0	−*	−*
Modify Federal Reserve Reimbursement	0.0	0.1	0.1	0.1	0.1	0.1
Delay Federal Pay Raise	0.0	−*	−0.1	−0.1	−0.1	−0.1
Establish Corps of Engineers Fees	0.0	*	*	*	*	*
Other	0.0	−0.1	−0.2	−*	−*	−*

* Revenue gain of less than $50 million.
−* Revenue loss of less than $50 million.

January 30, 1990 A863a

PREPARED STATEMENT OF RICHARD DARMAN

Mr. DARMAN. Chairman Whitten, Ranking Republican Congressman Conte, and distinguished members of the Appropriations Committee, it is a pleasure to appear before you to discuss the President's Budget.

We have provided you with copies of the Budget. It is almost 1600 pages long; and I know you have many questions. In the interest of conserving time, therefore, I would offer only these introductory points.

First, while fully protecting the "social safety net," the President's Budget proposes record high levels of investment for R&D (over $70 billion), space (up 24% for NASA), education ($24.6 billion), Head Start (up half a billion dollars), drug abuse control (up 41% in outlays), modernization of the national airspace system (up 45%), environmental initiatives, and other investments in America's future.

Second, to fund these initiatives, while also bringing the deficit down to the Gramm-Rudman-Hollings target, the Budget relies upon the following:

an increase of $83.5 billion in receipts from continued economic growth;

a 2.6% decrease in real growth for the Department of Defense;

selected reductions in other discretionary programs where returns on investment are comparatively low (discussed at page 271 of the Budget);

$13.9 billion from new receipt measures and $5.6 billion in user fees and offsetting collections (discussed at page A–49 of the Budget); and

selected reforms of mandatory programs to slow their excessive and unsustainable growth (discussed at page 183 of the Budget).

We have requested a 2.8% overall increase in discretionary budget authority (in nominal terms). For your convenience, I have provided the Committee with a table displaying the President's FY 1991 budget request by appropriations subcommittee (attached).

We welcome the opportunity to work with this distinguished Committee as we try to meet our shared responsibilities to keep the economy growing, to expand opportunity, to help protect the needy, to bring the deficit down, and to invest in America's future.

Secretary Brady, Chairman Boskin and I look forward to discussing these issues in response to your questions.

FY 1991 PRESIDENT'S BUDGET BY APPROPRIATIONS SUBCOMMITTEE
COMPARISON OF FY 1990 ENACTED AND FY 1991 PRESIDENT'S PROPOSAL
(In billions of dollars)

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BILL	FY 1990 ENACTED 1/		FY 1991 PRESIDENT'S PROPOSAL		PRESIDENT'S PROPOSAL vs. ENACTED	
	BA	Outlays	BA	Outlays	BA	Outlays
DOMESTIC DISCRETIONARY						
Commerce, Justice, & State–excl. Fct. 150	14.863	13.984	13.638	14.140	–1.225	0.156
District of Columbia	0.538	0.558	0.540	0.549	0.002	–0.009
Energy & Water, excl. Atomic Energy	8.742	8.728	9.359	9.083	0.617	0.355
Interior	11.367	10.619	10.392	11.015	–0.975	0.396
Labor, HHS,& Education	43.975	48.744	44.475	52.229	0.500	3.485
Legislative Branch	1.932	2.003	2.348	2.344	0.416	0.341
Rural Development, Agriculture	8.069	7.880	4.720	6.534	–3.349	–1.346
Transportation	12.612	27.526	11.389	28.190	–1.223	0.664
Treasury–Postal Service	9.690	9.628	10.100	10.113	0.410	0.485
Veterans Affairs, HUD, Independent Agencies	48.629	54.493	58.895	59.697	10.266	5.204
Domestic discretionary in all other bills 2/	0.010	0.010	1.432	0.441	1.422	0.431
Allowances 2/	---	---	–0.220	–0.220	–0.220	–0.220
TOTAL DOMESTIC DISC.	160.427	184.172	167.068	194.118	6.641	9.942

1/ FY 1990 Enacted reflects post-sequester and post-transfer data.

2/ Includes, for FY 1991 proposed, $1.2 billion in BA and $0.2 billion in outlays for discretionary legislative proposals that will initially require authorizing legislation.

Note: Includes user fees allocated to the appropriations committee.

FY 1991 PRESIDENT'S BUDGET BY APPROPRIATIONS SUBCOMMITTEE
COMPARISON OF FY 1990 ENACTED AND FY 1991 PRESIDENT'S PROPOSAL
(in billions of dollars)

05-Feb-90
11:58 PM
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BPB:DO

BILL	FY 1990 ENACTED 1/		FY 1991 PRESIDENT'S PROPOSAL		PRESIDENT'S PROPOSAL vs. ENACTED	
	BA	Outlays	BA	Outlays	BA	Outlays
DEFENSE						
Defense	284.074	279.181	287.073	284.200	2.999	5.019
Atomic Energy Defense	9.653	8.903	10.966	10.401	1.313	1.498
Military Construction	8.484	8.812	9.035	8.964	0.551	0.152
Function 050 In All Other Bills	0.426	0.465	0.566	0.511	0.140	0.046
Offsetting collections 2/	-1.006	-1.019	-0.783	-0.825	0.223	0.194
TOTAL DEFENSE	301.631	296.342	306.857	303.251	5.226	6.909
INTERNATIONAL						
Foreign Operations	13.864	12.258	14.343	13.563	0.479	1.305
Commerce, Justice, & State - Function 150	4.240	4.095	5.004	4.502	0.764	0.407
Function 150 In All Other Bills 3/	0.986	0.986	1.475	1.107	0.489	0.121
TOTAL INTERNATIONAL	19.090	17.339	20.822	19.172	1.732	1.833
GRAND TOTAL	481.148	497.853	494.747	516.541	13.599	18.684

1/ FY 1990 Enacted reflects post-sequester and post-transfer data.

2/ OMB estimates; the offsetting collections do not necessarily reflect the estimates used by Congress. Also includes trust funds and other permanent accounts.

3/ Includes, for FY 1991 proposed, $0.6 billion in BA and $0.2 billion in outlays for legislative proposals that will initially require authorizing legislation.

Note: Includes user fees allocated to the appropriations committee.

PREPARED STATEMENT OF MICHAEL J. BOSKIN

THE ADMINISTRATION'S ECONOMIC OUTLOOK, BUDGET PROPOSALS AND ECONOMIC POLICIES

Mr. BOSKIN. Chairman Whitten, Representative Conte and other distinguished members of the Committee, it is a pleasure to appear before you today to discuss the Administration's economic outlook and programs and their relation to the budget.

The Administration has developed a new set of forecasts for the U.S. economy. Much attention focuses on the Administration's economic outlook, both for its usefulness as an indication of where the economy is headed, and at this time of the year, as it affects projected budget outcomes. That's understandable and important, since the budget outcomes—how and how much we spend, how and how much we tax, as well as the path of the budget deficit—affect the allocation of the entire gross national product, the course of the economy, and prospects for the Nation's future economic well-being.

Although the economic projections contained in the tables you have before you are the result of a comprehensive review of the economic situation, the net result is an outlook that differs only in the details from our forecast presented in conjunction with the July 1989 mid-session review, which as I will discuss below has thus far turned out to be right on the mark.

The current projection reflects our broad assessment that the United States economy is healthy. It also reflects our review that the Administration's approach to policy—emphasizing free markets, sensible regulation, increased national saving, and policies that take the long view—best promotes sustained economic growth. The conditional nature of these forecasts must be emphasized: they assume the implementation of the Administration's economic policy proposals, especially the effort to reduce the budget deficit, balance the budget, and then reduce the national debt thereafter as well as other proposals to expand and enhance the economy's potential. If these proposals are adopted, we should be able to achieve maximum sustainable economic growth. Government policy must enhance the economy's potential for growth and ensure that it operates more frequently at its potential than in previous decades.

Achieving these goals is also conditional on the rejection of various proposals that would have adverse economic consequences. These include proposals that would add huge costs and disruption to the economy, while achieving only tiny additional environmental benefits relative to the President's clean air proposals, or that would remove large amounts of revenue from the revenue base.

ECONOMIC ASSUMPTIONS

Before I begin, I would like to take a moment to acknowledge the contributions of others in developing this forecast. The Administration's economic projections are result of concerted effort by the Troika agencies—the Council of Economic Advisers, the Department of the Treasury, and the Office of Management and Budget. The Department of Commerce also contributes to this process. As

you know, the President stays well informed on the state of the economy, and the projections that I am about to discuss have been approved by him.

Economic Developments in 1989

You are also no doubt aware that recently the Department of Commerce reported that real GNP rose 0.5 percent at an annual rate in the fourth quarter of 1989. This increase brought real GNP growth on a year-over-year basis to 2.9 percent (2.4 percent on a fourth-over-fourth basis).

The slower growth in the fourth quarter was not unexpected. Indeed, I have said consistently in my speeches over the last several months that we expected growth to slow in late 1989 and early 1990, but we expect growth to rebound later this year. There were three principal forces that led to the slowing in 1989, and we expect each of these to fade in importance in the future.

First, growth slowed in response to the tightening in monetary policy over much of 1988 and early 1989, which was designed to reduce the risk of an accelerating inflation. In the short run this tightening is reflected in a more sluggish pace of growth. Over a longer period of time, the containment and eventual reduction of inflation, however, is an important prerequisite for long-term growth. Each recession since World War II has been preceded by a sharp run-up in inflation, which usually causes policy responses or private sector imbalances that lead to a downturn.

Second, a slower growth in real Federal Government purchases of goods and services—an important result of deficit-reduction efforts—also contributes modestly to slower growth in the short run. Over the long term, though, slower growth in government spending frees resources for employment in the private sector, boosting investment and leading to higher sustainable economic growth.

Finally, a slower pace of improvement in real net exports was expected and occurred during late 1989. Again, the Administration expects that government policies directed toward increased national saving will improve the fundamental economic factors that lie behind the external deficits.

The slowing in the fourth quarter also was caused partly by some temporary special factors, which will not persist. The extremely cold weather in most parts of the Nation in December and the Boeing Company strike beginning in October and ending in late November reduced output last quarter. The Boeing strike alone is estimated to have reduced GNP growth in the fourth quarter by about one-half percentage point. Thus, you can see that the underlying pace of GNP growth in the fourth quarter is somewhat higher than the reported figure.

The return to more normal production as these special developments cease will add to growth in the first quarter of 1990. However, the lagged effects of monetary tightening through the first part of 1989 are expected to continue to hold down GNP growth during the first half of 1990. We expect that by the summer interest-sensitive sectors will be responding to the easing of monetary policy that has been underway since last June, the accumulation of inventories in the fourth quarter will be worked off, and production will begin to rise at a more rapid rate.

Forecast for 1990 and 1991

For 1990 as a whole, we expect GNP to expand 2.6 percent on a fourth-quarter-to-fourth-quarter basis, a small increase from last year's growth. Growth at 2.6 percent is somewhat slower than our 3 percent estimate of the annual expansion of the economy's capacity to produce, and is only 4/5 of the average rate of growth the United States has experienced over the last forty years, a period that includes seven recessions. Consequently, our forecast includes a very slight increase in the unemployment rate this year, to an average of 5.4 percent.

The temporary period of increased slack in labor and plant utilization is expected to give impetus to a decline in inflation rates. The Administration forecasts that CPI inflation will edge down to 4.1 percent in 1990 from last year's 4.6 percent rate. The Administration's steady, credible macroeconomic policies should help convince wage and price setters that inflation is gradually being rolled back. Our forecast calls for slow but steady reductions in inflation over coming years.

Credible fiscal and monetary policies also form the basis for the Administration's interest rate projections and for the economic outlook as a whole. Indeed, as I noted above, our forecast is conditional on successful implementation of the President's policy proposals. The Administration is committed both to meeting the Gramm-Rudman-Hollings targets, and to strengthening the GRH process. The Administration also proposes that projected social security surpluses be dedicated to reducing the national debt. This should convince market participants that the Federal Government drain on credit markets is on a long-term downtrend. Consequently, the Administration expects that real interest rates can and will decline. Moreover, the Administration's support of a credible monetary policy that sustains growth while reducing inflation gradually and predictable will reduce the inflation premium in interest rates. For both of these reasons, the Administration expects declines in interest rates in 1990 and beyond.

Turning to 1991, the Administration is projecting a pickup in GNP growth to a 3.3 percent annual rate as the economy snaps back toward its potential, after this temporary period of slower growth. This higher growth is expected to lower the unemployment rate back to 5.3 percent. Inflation next year is expected to fall slightly to 4.0 percent.

Uncertainty in the Forecast

Let me comment on the uncertainty in the near term forecast. As I mentioned above, some forecasters, impressed by the very length of the expansion, have concluded that it is old and must end soon. But economic expansions don't come with an expiration date. While recessions can never be ruled out, economic research has shown that the likelihood of an expansion ending does not rise with its age. Rather, recessions tend to be the result of policy mistakes, adverse external shocks, or imbalances such as building inventories economy-wide. Although policy mistakes or adverse shocks are always possible, at the present time neither appears to

be likely. The inventory imbalance has thus far been confined primarily to the automobile sector.

As I indicated above, monetary policy has been eased progressively over the past half year, and we expect that monetary policy will accommodate continued economic growth in 1990. Moreover, most forecasters expect healthy growth in the other major industrialized countries with relatively stable inflation; this pattern will help reinforce continued expansion here in the United States.

Administration 1989 Forecast Accuracy

I might also comment briefly on statements by some that Administration's forecasts are always too optimistic. Sometimes reputations are hard to shake. Although the Mid-Session forecast was viewed as more realistic than the Reagan Administration forecast we inherited, our forecast was also criticized as being "too optimistic". In fact, as the year progressed, private forecasters adjusted their forecasts closer and closer to the Administration forecast. And if you will turn to table 3, you will see that the economy behaved almost exactly as we expected in 1989.

The Administration's forecast for (year-over-year) real GNP growth, the unemployment rate and interest rate on 10 year bonds were exactly accurate. They were off by only 0.1 percentage point for short term interest rates and, 0.2 percentage point for consumer price inflation (we were too pessimistic at mid-year).

While economic forecasting is an inexact science and ther undoubtedly was a certain amount of luck, as well as good judgement and hard work, involved in our 1989 forecast, it is instructive to note that the Administration forecast was more accurate than all 52 forecasters that are regularly surveyed by the Blue Chip Economic Indicators (see attached Table 4 and Figure 1).

This was the most accurate forecast in the history of the Mid-Session Review of the Budget dating back to the late 1970's.

The Administration's forecast tracked the economy extremely well in 1989. While this is no guarantee it will do so in the future, it is important to remember that the Administration's economic forecast, unlike private forecasts is conditional upon the adoption of the President's economic program. Thus, the economic assumptions and the budget estimates, both of which are based on the President's proposals, are a consistent package. In contrast, private forecasters will make their own assumptions on the likelihood the President's proposals will be implemented as they work their way through the budget process.

Although our projections for 1989 turned out to be quite accurate, forecasting really is an inexact science. The range of uncertainty and its consequences deserve nearly as much attention as the forecasts themselves. For that reason, the Administration has developed alternative forecast paths that are consistent with higher growth and lower growth than those mentioned above. The higher forecast assumes 3.0 percent GNP growth in 1990 rather than the 2.6 percent in the baseline. This path would bring the average unemployment rate for 1990 down to 5.1 percent and the inflation rate up to about 4½ percent. The lower path assumes 1.9 percent GNP growth and would result in average unemployment of 5.6 percent and inflation about ¼ percentage point below that in

the baseline. These alternative paths have a noticeable effect on the projected budget deficit in fiscal 1990 and a somewhat larger effect in fiscal 1991.

Longer-Run Economic Projections

Let me conclude my discussion of the economic assumptions by sketching out the Administration's longer-run economic projection, that for the years from 1992 into the mid '90s and beyond. These projections reflect our view of fundamental demographic trends in the economy and the impact that sound policies will have on productivity. Our forecasts include a standard assumption of an average increase in the labor force of 1.3 percent per year, representing some slowing from the pace of the 1980s as the incorporation of the postwar baby boom generation into the labor force is completed.

We expect that productivity growth will offset the slowdown in labor force growth, reflecting a more skilled and experienced labor force. In addition, Administration policies that promote higher national savings and lower real interest rates will lower the cost of capital, promoting increased investment in plant and equipment, and research and development. Together, these are expected to help achieve productivity growth of 1.8 percent per year. Long-term productivity growth in the early 1990s of 1.8 percent is a realistic, achievable goal; indeed, productivity increased at exactly that rate over the 1986 to 1988 period. Productivity growth was weaker last year, but it reflected slower growth of output in 1989 from previous monetary tightening to combat concern over potential acceleration of inflation.

Economic Policies

The facts, figures, and forecasts that I have discussed are important in and of themselves. We all recognize, for example, the importance of low unemployment and inflation rates and strong growth in the gross national product. But the real significance of this forecasting exercise is the spotlight that it throws on policies. It gives us the opportunity to reflect on the potential dangers of misguided economic policies. And it makes clear what sound government policies can do to promote a healthy economy.

The Administration's fiscal, monetary, trade and regulatory policies are designed to achieve the highest possible sustainable rate of economic growth, by both enhancing the Nation's potential output and ensuring the economy generally operates at its potential. The principles of Administration policy are as follows:

(1) reduce the Federal budget deficit until the budget is balanced in fiscal year 1993; thereafter reduce the national debt;

(2) support a credible monetary policy program that sustains maximum economic growth while predictably controlling inflation;

(3) continue to lead the world to freer trade and more open markets; and

(4) eliminate undesirable regulation, avoid unnecessary regulation, and where regulation is necessary, select goals that balance benefits and costs, and employ flexible, cost-effective methods.

Our forecast is contingent upon the adoption of the President's proposals and pursuit of these economic policy goals. In contrast to private sector and other forecasters, who make their own assump-

tions about the budget deficit and economic policy outcomes, the Administration expects that the President's proposals will be adopted, the budget deficit will decline along the Gramm-Rudman-Hollings path, and after 1993 the social security surplus will be dedicated to reducing the national debt.

We think these are ambitious yet realistic goals. It is important to be ambitious and realistic. Setting the Nation's sights too low guarantees mediocre performance. Setting hopelessly unrealistic goals guarantees disappointment.

Mr. Chairman, I would now be happy to answer any questions you or the members of your Committee may have.

Chairman WHITTEN. During our further proceedings, I am going to limit each member to ten minutes the first time around. If a member has additional questions, he can be recognized in the second go-around.

I recognize at this time the distinguished Chairman of the Labor-HHS Subcommittee, and ranking member of the Committee. The subcommittee which he chairs, and he does handle it with the support of his colleagues, reaches more Americans presently than anything we can see, the Honorable Bill Natcher of Kentucky.

Mr. NATCHER. Thank you, Mr. Chairman. We are delighted to have you three gentlemen before the committee this morning.

INVESTING IN EDUCATION

Mr. Darman, as you well know, there are increases in the proposal for the Department of Labor, Health and Human Services and Education which this committee will almost certainly support if we have the resources.

We have a $500 million increase for Head Start. We have a $353 million increase for the National Institutes of Health, and $545 million increase for the Department of Education.

EDUCATION SPENDING

In the fiscal year 1988, Mr. Darman, the administration requested $13.9 billion for education. That year on our committee and in the Senate we carried that amount up to a total of about $20.3 billion.

Then for the fiscal year 1989 the administration requested $21.2 billion. We ended up $22.7 billion. Mr. Darman, when they came in with the request of $21.2 billion, we didn't fuss at them. We said to Secretary Baker and to your predecessor, Mr. Miller, you are now on the right road. You are traveling the right road when you come up to $21 billion for education.

When you consider the amounts we have appropriated and have been requested for a number of years now, you find that from 1980 up until 1990 the Congress has appropriated and the Department of Defense has spent $2,612,000,000,000 during that period of time. For education we have spent $199,000,000,000 from 1980 to 1990.

Mr. Darman, I voted for every one of those bills that call for increases in defense appropriations. I voted for all of them for the amount of $2,612,000,000,000. I voted for all of them. I don't know of anyone in Kentucky or anywhere else that wants to impair the

security of our country, but, Mr. Darman, the thing that concerns me is why only $199,000,000,000 for education?

We believe on this committee, and I know that you believe also, that if you educate your children and take care of the health of your people you continue living in the strongest country in the world.

GUARANTEED STUDENT LOANS

Now, in this budget that you have before us you make a reduction of approximately $700,000,000 for Guaranteed Student Loans.

You say to us in your budget that as far as interest rates are concerned, interest rates will come down. We can take out $700,000,000 out of the Guaranteed Student Loan program.

Mr. Darman, as you well know, we had to have a supplemental last year of $892,000,000 to put back in the interest for guaranteed student loans.

Now, generally, Mr. Darman, how do you feel about the budget that is presented to us for education, keeping in mind your reduction now of $700,000,000. Just as sure as you are sitting in that chair we will have to put most of that back in before the fiscal year is over. How do you feel generally about the amounts that we have here for education, Mr. Darman?

Mr. DARMAN. Thank you, Mr. Natcher. Well, as you might expect, I feel very good about them. I think they represent, as the statistics you cited suggest, what has to be viewed, I would have thought, from your perspective as a move in the right direction. I suppose we might differ as to the exact distribution by one program or another, but certainly it is a record high level—higher than ever has been appropriated, higher than ever, I believe, has been requested for education.

Now, when it comes to comparing it with the investment in defense, of course there—as I know you well appreciate, we get into the issue of the distribution and responsibility as between the Federal, State, and local government, public and private sector. Defense is a public responsibility, heavily centered at the Federal level necessarily.

That is not true of education, as we all appreciate, and that is what I think accounts for the difference, but assuming we are not going to radically change the relationship between the Federal, State and local government in education, and we do not propose to change that relationship, then I think you have to view this, if I might suggest, as a very respectable effort to invest in the way we think is intelligent.

As you know, we have tried to concentrate on younger children, on needier children. That is the $500,000,000 increase in Head Start and the Chapter 1 increase to which you have referred. With respect to Guaranteed Student Loans, that is an entitlement and an estimate, and you may be right or we may be right.

I agree with the Chairman and with Chairman Boskin, economics is certainly inexact, and if our interest rate estimate turns out to be wrong, then you will turn out to be right that we would need a supplemental.

If our interest rate estimate is right, then we won't need the supplemental, but it really is a separate matter, it seems to me, from what we are doing in all the discretionary accounts. The decrease in student loans, just to clarify, and I know you appreciate this, is because of the difference in the interest rate assumption.

It is not a policy change. In other words, we are assuming they will be the same overall participation.

BIOMEDICAL RESEARCH

Mr. NATCHER. Mr. Darman, as you also know, in your 1991 request we have about a 4.7-percent increase as far as biomedical research is concerned. When I was elected a member of this committee, for the National Institutes of Health we had $77 million. Now we have brought that amount up to $7.576 billion. If I had my way, it would be $10 billion. That is where you should spend your money.

How do you feel generally about biomedical research? Why not more, Mr. Darman?

And let me say this to you, Mr. Darman, on the record. If Time Magazine had asked me to place the picture on the cover of the magazine for the Man of the Decade, I certainly wouldn't have placed Gorbachev on there. You might be surprised as to who I would tell you I would put on there for the last 10 years. Not Gorbachev, not by any means.

Mr. DARMAN. Well, Mr. Natcher, I am very favorably disposed toward biomedical research. It is a very difficult judgment to make how much of an increase is appropriate in the area of basic research. This is a—who is your vote, sir?

Mr. NATCHER. You can imagine what they are asking me. Go ahead, Mr. Darman. I think I would surprise two or three of them.

Mr. DARMAN. Is it one of the Directors of the Institutes at NIH?

Mr. NATCHER. I can tell you with Dr. Shannon—I can come up and name several of them that you could put on, Mr. Darman, I don't mind telling you.

Mr. DARMAN. In any case, it is a large level of investment. We did not propose to cut it. We proposed to increase it. If you compare it with the overall increase in research and development which is very large, I think you have to adjust, if you are looking comparatively. This year, there is, and we propose it, an especially big increase, of a couple of billion dollars, for NASA, a big portion of which is for the space station.

As you know, and this committee knows, you have proposed the money, the plan for NASA. The funding level was to go like this, and then to have this steep increase when they are ready to start fabrication.

We are at that point. So that makes the level of increase for the other portions of the R&D budget taken as a whole look larger than in fact they are than biomedical. But biomedical is still a very substantial investment.

ENDING THE SCOURGE OF DRUGS

Mr. NATCHER. I believe I have time now, Mr. Darman, for just one additional question. Drug abuse. As you know, we have about

$2.8 billion of this money in our bill, and we have a total now of right around $10.1 billion for fiscal year 1991 proposed in your budget.

I personally like Bill Bennett, Mr. Darman, I think he is an able man. How do you feel generally about this program? Is it working? What about this amount of money? $10.1 billion. Will you have anything to show for it at the end of the fiscal year, Mr. Darman?

Mr. DARMAN. Well, as you know, Mr. Natcher, the Czar is of the view that the scourge is ending and that the trend is now turning more favorably. I personally am not so sure that is true, and even if it were true, I am not sure that you could demonstrate that it would be attributable to the investment we made.

But we do have a major increase in this area. I personally cannot, from my perspective, allege that there is any certain connection between this increased investment and our ability to really turn the tide here. We have done everything that we think it is responsible to do.

The reason I am hesitant is we have a more basic cultural problem, and money alone is not going to get at the cultural problem. A lot of what we are doing helps. I know you are interested in the treatment side and the law enforcement at the local level.

All of that undoubtedly helps. The education and so on. But as long as you got a culture generally that tolerates this as a matter of values, I am not sure that you actually can win the war with money.

But that is a personal judgment. The Czar believes we are making progress, and he is the Czar, so I would defer to him.

Mr. NATCHER. Mr. Darman, Mr. Conte and I, together with the help of our chairman, Mr. Whitten, and all the other members of the Subcommittee on Labor, Health and Human Services, and Education, we will bring you out a good bill, one that you will like, Mr. Darman. You are going to work with us.

Thank you, Mr. Chairman.

Chairman WHITTEN. I have thought that we should give him the power of a Czar so he could go to the agencies and have some jurisdiction. That is one difference that we have.

I recognize at this time the Chairman of the Subcommittee on Commerce, Justice, State, and Judiciary, one of the great subcommittees that we have, Mr. Neal Smith.

WAR ON DRUGS

Mr. SMITH of Iowa. Thank you, Mr. Chairman.

While we are on the matter of drug law enforcement, I just want to mention this. I keep hearing people setting as a goal and standard that we win the war on drugs. You don't win any war. The point is that if you didn't have a war, where would you be?

That is true of any kind of a war. So setting up a standard of winning as being the criteria that we look at is just wrong.

Director Darman, since I chair the subcommittee that handles most of the funding for the war on drugs, as you might expect I am interested in understanding your budget proposals concerning drug law enforcement.

Now, the President in his State of the Union message said he would increase the total dollars for the war on drugs. As I analyze it, much of the increase in dollars would merely annualize the big increase we provided this year, because it is being implemented gradually during the year.

But also, and this is what concerns me, there would be offsetting reductions in the FBI, for example, and other agencies in non-drug law enforcement resources that they need really for other purposes.

For the FBI, there would be a $95 million increase for drugs, but there would be a $70 million decrease in unspecified program reductions. Now, this would require an elimination of 1300 agent and support positions in the FBI in the non-drug area.

Now, I noticed that people from the Drug Czar's office were testifying and they said, as I understood it, that the administration is going to have a proposal to replace those 1300 positions and other reductions that are proposed in the budget in order to fund the war on drugs.

Is that so, when is the proposal going to be submitted to Congress?

Mr. DARMAN. I don't know what the Czar is referring to, Mr. Smith. Let me try two things in response. As a general matter, we did not require agencies to offset increases in drugs with decreases elsewhere.

In fact, we viewed these entirely independently. On the one hand, there was the question of what is the right amount to put in drugs, on the other looking across the whole Government, where could you save money. It wasn't confined—if FBI goes up it has to go down 70 over there as an offset—we didn't do it that way. So, I am not sure what he might have been referring to. One thing that comes to mind is the issue related to administratively controllable overtime. I don't know if that is what might be involved here.

There were some cuts in some of the law enforcement personnel levels in the full-time equivalent levels thanks to the new provision concerning overtime that was enacted at the tail end of last year. We are reviewing that, and we are trying to see if we can, instead of submitting the S&E budget as we did, if we can take money out of other accounts to make sure we don't have to have people reductions.

Mr. SMITH of Iowa. What other accounts are there in FBI other than Salaries and Expenses?

Mr. DARMAN. You are right, but we are looking at it. But it is really only—I don't think it is quite as many people as——

Mr. SMITH of Iowa. Well, we had their budget people calculate the figures for us, and also it is in the Attorney General's statement that he made on the release of the budget. So, I think you will find that the reduction is that severe.

Mr. DARMAN. They may have made a decision on their own within the Department to try to fund more drug-related stuff at the expense of something else in the Department. We did not impose that on them.

Mr. SMITH of Iowa. But if they have a money crunch, they have to get it from somewhere and largely from Salaries and Expenses. They don't have anywhere else to get it from. I am just picking out

the FBI as an example. But I was in hopes that you would tell us that we would come up with a proposal to replace those offsetting reductions.

But you don't have that in mind, then?

Mr. DARMAN. No. It would have to be within the same fixed pot, so essentially——

Mr. SMITH of Iowa. Well, there isn't money within the same fixed pot.

Mr. DARMAN. I know. It is a hard problem.

PROPOSED INCREASE FOR TREE PLANTING

Mr. SMITH of Iowa. Now, I want to ask something else about the President's message to Congress. He said we are going to plant one billion trees. Which budget is that in? Where is that money in this budget?

Mr. DARMAN. I believe it is in the Interior Department budget. I think it is—I am going from memory, $175 million that is divided into two parts, a small piece like 25, and 150 is the other one for two new programmatic initiatives to increasing planting of seedlings.

Mr. SMITH of Iowa. Well, I will let Mr. Yates handle that, but I couldn't find the money there.

Mr. DARMAN. I can find it while we are—when Secretary——

Mr. SMITH of Iowa. I want to point this out. In 1983, a bill which I sponsored in the Small Business Committee, which is currently H.R. 609, was passed. We funded $50 million in tree planting for grants to State and local governments. It was an immensely successful program.

On a local level they have parks or other places where they need the help. They hire a small business contractor. He goes out and hires unemployed people or students, and they go out and plant a lot of trees in a hurry without a lot of red tape.

The rules and regulations for the program need to be dusted off, that is all. They are there. The program is ready to go, however, the departmental reports we have gotten back so far on the pending bill have not been favorable.

Now, I know the departmental reports were there before the President made the State of the Union message. But isn't the President still the top dog in making administration policy?

Mr. DARMAN. I believe he is.

Mr. SMITH of Iowa. I would request that you dust off the departmental reports and give a favorable recommendation to this bill. I understand it will be taken up in the Small Business Committee soon, and I think it is a way to get the State and local governments involved.

Mr. DARMAN. We will take a look at it. Thank you.

RELATIONS BETWEEN TREASURY AND THE FEDERAL RESERVE

Mr. SMITH of Iowa. It is a good bill. I wanted to ask Secretary Brady something. I read in the press that there are differences between the Fed and the Treasury Department, that their relationship isn't as cozy as it has been at times in the past.

Do you want to comment on that?

Secretary BRADY. Mr. Smith, I wouldn't characterize it as cozy or not cozy. We have a policy of meeting frequently with the Chairman of the Fed and other Fed Governors expressing directly and without any varnish on it our opinions on the level of activity and the economy and interest rates. I think sometimes these things get overblown in the press. I think maybe nothing is really served by that.

I think what the market likes is some stability and concurrence of opinion. I have said a number of times, if you had to pick a difference between the administration and the Fed, the administration is more interested in growth, keeps a weather eye on inflation, and perhaps the Fed is more interested in controlling inflation and keeping an eye on growth.

Mr. SMITH of Iowa. I think a lot of people are not aware of the fact that the Fed, any time they want to do it, can print some more notes, non-interest-bearing notes. The Treasury Department gives them interest-bearing bonds to offset them.

They take the interest and they use the interest accumulated to affect the economy. You do have a lot of leverage. If the relationship isn't as cozy as it has been in the past—and maybe for public purposes, it doesn't need to be—I would be surprised if you don't have a way to make it better.

I want to point out that this is terribly important to us. If your expectations and your estimates in this budget don't materialize, we are going to have a squeeze like the people of this country have never seen.

So, it is terribly important that the Fed's policies and the Treasury Department's policies be made in such a way so that we can have these estimates become a reality.

Secretary BRADY. Well, Mr. Smith, we are very clear about our feelings with the members of the Fed, particularly the Chairman. All three of us meet with him, and we are very direct. We just think it is better served if we keep those comments in private rather than public. But we are very clear when we meet with him.

Mr. SMITH of Iowa. Thank you, Mr. Chairman.

Chairman WHITTEN. The Chair recognizes the ranking Republican on the Committee, Mr. Conte who is active on all subcommittees, but who is especially active as the ranking Republican on the Labor-HHS Subcommittee.

Mr. CONTE. Thank you, Mr. Chairman. It has been great working with you. You became chairman the same time I became the ranking Republican. We have had some tough years in that span of 11 years, and we worked them out as a team.

Mr. Darman, tell me what happened last year is not going to happen again. You set up a budget with healthy increases in the administration's priorities, decreases in some of our priorities, but all dependent on the major deficit reduction proposals that it will be very difficult to achieve: Medicare, $5.5 billion; down payments on Veterans home loans, cuts in child nutrition, and so forth. Isn't this a budget that leads straight to a repeat of last year—Appropriations playing a zero-sum game; other committees failing to meet their responsibilities and then sequester making up the difference? Isn't this budget SOA, sequestered on arrival?

Mr. DARMAN. Thank you, Mr. Conte.

I think there are a couple of significant differences in terms of what is actually likely to happen. First of all, we don't know yet what is going to happen with the defense number and the Peace Dividend, but obviously, the political dynamics on that are different this year than they were last year.

Secondly, and this is a smaller item, we are trying to package some of those fees and other proposals to which you have referred so that we have a better chance of getting them legislatively by designing them and referring them to the committees more likely to act on them.

But most importantly, at least on my list, I think that we made a bit of a mistake procedurally last year when we had our early negotiation, and we did it mainly with the Budget Committees. I think that we should have included the Appropriations Committees and the Ways and Means and Finance Committees in the process. Had we done so, the process would have moved toward completion in a smoother manner.

So, although we are not in such a negotiation this year, after we get through the early few weeks of everybody taking shots at us, I would hope that we do get into some constructive negotiations and this year, I would hope that we would pay more attention to the need to include these other important power centers in the process more or less from day one, and not just at the tail end.

Mr. CONTE. I am glad to hear you say that. You heard my one-minute speeches. I kept saying that is how we should have done it. We did it after the October disaster, the stock market crash in 1987. It was done only once and it worked. We brought out a good package at that time.

SECTION 614 OF THE FY 1990 COMMERCE, JUSTICE, AND STATE APPROPRIATIONS

What is your position on the lifting of the section 614 funding limitation on State and USIA funds, which requires a budget waiver because it increases both budget authority and outlays when we are already scored as over our ceilings? Do you recommend that it be vetoed unless offsets are found?

Mr. DARMAN. I know we have to decide that today, I believe, because it is coming up today, and we are talking with your staff and the Budget Committee staff and so on. Let me just give you 93 percent of an answer, not a whole answer, because we have these conversations going on with our staffs right at the moment, I believe.

I am torn on this one. On the one hand, I really think every supplemental should be offset. Therefore, we shouldn't have a waiver. But on the other hand, it is a little bit unfair to these accounts, because when the action was taken on section 614 in the first place, on October 19, the committee specifically left enough room so that if section 614 were waived, the committee would still be within its 302(b) allocation.

Then, subsequently, on October 25th, an independent action was taken in response to the earthquake and a good portion of it was charged against that committee correctly, but it took away the remaining ceiling. So you can make a case that we sinned once, or, at

least from my perspective, twice when we didn't require offsets at the time of the disasters.

But, having done that, it doesn't seem entirely fair to now say we are going to take an innocent third party and require that they be a victim of our failure to have the offsets then.

So I am kind of torn on this, but I am tilting toward saying we made two mistakes, so we have to make a third one. But then put an end to it, and then say okay, let's switch back, and from here on let's get back to the old policy. Everything has to be offset.

Mr. CONTE. No, no, I got you ready for this next question, you see.

Mr. DARMAN. I know what is coming.

LOW-INCOME ENERGY ASSISTANCE

Mr. CONTE. I think you are right, and I hope you continue to be right. Let's talk about one situation that is threatening human life and safety and property—your latest standard for supplementals. In December, the coldest in 50 years, heating oil prices went through the roof. They increased 50 percent and more from the refineries.

The temperatures at that time were twice as cold and prices twice as high. That means that people could have paid up to four times the usual oil bill to stay warm in the month of December.

People started running out of heating assistance and personal resources at the end of December rather than April. The demand for the program is way up, and prices at the end of January were still 30 percent up from where they started on November 29.

You recognized the problem by proposing legislation to allow money reserved for the third quarter to be released early. There are only two problems. One, you don't need it. It can be handled administratively. You don't need to change the law. Two, unless States know there is a supplemental coming, they can not expand their plans to handle the situation of families who have unexpectedly used up their assistance in December and January and have nowhere to turn to fill their tanks for the rest of the winter.

My question is, is the door closed, from your perspective, on a supplemental, small compared to the earthquake that you mentioned, the hurricane relief that you mentioned, the State Department problem that you mentioned, that may be required to keep people from heating their homes this winter with ovens and candles?

Mr. DARMAN. Thank you, Mr. Conte.

I have at the moment well over $3 billion in supplemental requests of various kinds recommended either from within the administration or from the Congress. I have been trying to say no to all of them, and applying a very stringent test. Now, in this case, I would hope that what we could do is, first, explore how much can be done administratively.

For example, we at OMB have been holding up the distribution of money to the States. I shouldn't say holding up, disbursing in the ordinary manner, because as you know, the law requires that the States have this 10-percent reserve. If we were to give them

any more money, it is generally thought that they couldn't spend it.

So, I have been thinking what we should perhaps do is at least give the money to the States and let the States make the judgment about how they want to handle it. If we could get the money to the States right away, the States could use it.

Now, we tend to believe that there needs to be a legal change, and we have suggested language that would waive that 10-percent reserve requirement. I would hope that first, our own administrative action, if necessary a waiver of that 10-percent reserve requirement, could handle this year's problem, and we wait and see what happens with actual weather in February, March, April, to see whether there is a need for supplemental.

The immediate problem is to get more money flowing. So, we are prepared to try to do that. I think the way we have suggested is the fastest way. As for the remainder, I think we should wait and see. Right now, we are having an unseasonably warm period. If it levels off, there wouldn't be the need for the supplemental overall.

Mr. CONTE. Well, it is warmer here in D.C., but you ought to come up in the Berkshires. There is a lot of snow up there, and we had a real storm this weekend. I was up there. The weather never got up above 29. It was zero and around there.

Thank you, Mr. Chairman.

Chairman WHITTEN. We have now the distinguished chairman of the Interior Committee. You know, I have said many, many times—and he is on other subcommittees—this is a man looking after all our country, and he does a whale of a job. Mr. Yates.

Mr. YATES. Thank you, Mr. Chairman, I appreciate those remarks. We try to do a good job for the country, and we are glad to see your $175 million program for trees as a first effort, eliminating the Reagan phobia against trees.

URBAN FORESTRY

As you know, we put in $10 million last year for an urban forestry program that was not contained in your budget. I think probably you approved it when we did put it in. However, that is what you want in your new program, is it not? You want the cities to be planting trees, and you propose to help them do it with $175 million?

Mr. DARMAN. Yes. A portion of it is targeted for cities, and a portion of it is more general.

Mr. YATES. A problem that we on our subcommittee have, is that we have the general statement in your budget about the program and $175 million being allocated for it, but there is no explanation as to how it is to be distributed. Is it intended by your office to come forward with a program later on, or do you leave it to the Congress to distribute it?

Mr. DARMAN. No, it is our intention to come forward. I apologize for that. I checked, and you are right. In the budget, it is too vague, and we will get something to you very quickly.

[The information follows:]

National Tree-Planting and Forest Improvement Program

America the Beautiful (ATB) is a FY 1991 Presidential Budget initiative to protect, conserve, and enhance natural resources for the benefit of future generations. The initiative includes three components, which cut across the Interior and Agriculture Departments. These components are (1) expanded Federal recreational land acquisition, which involves both departments; (2) a National tree-planting and forest-improvement initiative, to be administered by Agriculture; and (3) an Interior Department resource-protection and recreation enhancement effort, called "Legacy '99". The following discussion covers the tree-planting initiative at Agriculture.

The National Tree Planting and Forest Improvement Program is a part of the new America the Beautiful account in the USDA/Forest Service budget (page A-514 of the Budget). The tree-planting initiative includes $175 million per year to pursue the goal of planting a billion trees a year on private lands across America, including a Community Trees initiative designed to plant 30 million trees a year in community and urban environments. In concert with the President's tree-planting initiative, the budget also proposes the establishment of a private, non-profit foundation to promote public awareness, to solicit financial and non-financial support, and to mobilize a spirit of volunteerism to further the President's tree-planting goals.

The attached table highlights program costs, anticipated outputs, and major program components included in the tree-planting initiative.

The tree-planting initiative will demonstrate the United States commitment to worldwide forest management, particularly as it relates to global climate change; will provide conservation leadership through public-private partnerships and volunteer programs; and will provide benefits such as improved air and water quality, enhanced wildlife and fish habitat, preservation of natural settings and biological diversity, and increased economic diversity in rural America.

Almost half of America's forest land is private land that is not used by large enterprises in the forest products industry. This private, non-industrial forest land tends to be in poor condition due to low levels of management and investment. Thus, reforestation and stand improvement investment on these lands can yield an especially high level of CO_2 sequestration and other benefits. The goal of the program is to achieve the planting of trees on over one and one-half million acres of these private lands annually, and to provide timber stand improvement and other stewardship activities on another 180,000 acres.

Reforestation: Planting Trees for America's Future

Program cost: $175 million a year for 5 years.

PROGRAM OUTPUTS—PLANTED IN 5 YEARS

Location	Acres millions	Number of trees millions
Forestland	5.1	3,500
Pastureland	2.6	1,800
Cropland	0.2	150
Communities	(1)	150
Total planted	2 7.9	5,600

1 Not known.
2 Plus communities

Acres of timber stand improved in 5 years: 910,000.

SEQUESTRATION OF CARBON DIOXIDE

The annual CO_2 uptake by the trees planted in the 5 years, averaged over the lifetimes of the trees, is 66 million metric tons of CO_2. This is 1.48 percent of the U.S. emissions of CO_2 for 1987. Continuation of a tree planting program of this scale for a twenty year period would sequester more than 5 percent of U.S. emissions for 1987.

[In millions of dollars]

	Annual cost
Program Components:	
Community Trees Initiative:	
Capitalization for foundation	35
Leadership, coordination, and technical assistance	30
Reforestation of private non-industrial lands:	
Federal Cost-Sharing	90
Technical Assistance	20
Total	175

NOTE.—The $35 million capitalization for foundation is a one time cost. In the 2nd to 5th years it would be reallocated to other components based on where the highest payoff is experienced.

Mr. YATES. I would appreciate that. We are starting very soon. I take it, Mr. Darman, that you read Mr. Stockman's book, "The Triumph of Politics"?

Mr. DARMAN. Yes.

Mr. YATES. I take it that you noticed that after the article, he thought he should consider his position with two of his very close friends. You were one of those close friends. Later on in his book, Mr. Stockman points out his feeling that Gramm-Rudman, if it continues and isn't changed or eliminated by the Congress, will have devastating results upon the country.

He foretold the grim results of the shrinking that occurs after Gramm-Rudman and what its effect would be on the programs, especially with a lack of funds coming in to the Treasury because of the tax bill of 1981.

I take it you don't agree with that conclusion of one of your good friends?

Mr. DARMAN. No, I don't. I defer to your view of his book. Mine is probably quite outdated, but Gramm-Rudman didn't pass until 1985.

Mr. YATES. The book was published in 1986.

Mr. DARMAN. But the book essentially stops in 1982. But I don't remember the passages on Gramm-Rudman, but if that is what he said, I don't agree with it.

Mr. YATES. That is what he said, and I will show you my copy of the book.

Mr. DARMAN. I am sure you are right, I just forgot.

Mr. YATES. Well, isn't he correct in this? I find many of my colleagues agreeing with Senator Moynihan insofar as certainly the use of the Social Security Trust Fund for the ordinary operating expenses of government is concerned.

They decry the use for ordinary operating expenses of the Trust Fund. It would be interesting if they were to pass some kind of a bill that would take out of your budget the—I think the $75 billion that you are depending upon to pay for the expenses of government. If that were to be the case, what would you do then?

Mr. DARMAN. Well, of course, the President has said he would veto the bill, and so I guess you have to ask what would happen if it were overriden? I have to think it is just an extremely unlikely possibility.

As you know, we propose ourselves to separate out——

Mr. YATES. That is 1993.

Mr. DARMAN. That is right, and I think when Congress looks at this on its own, it will reach the decision that even if you want to separate it out entirely, you don't want to create a shock to the system that requires, say, either a $75 billion larger sequester or a $75 billion tax increase in one lump.

I just don't believe our political system will conclude it wants to do either of those.

Mr. YATES. So that you don't foresee the Congress accepting the Moynihan proposal?

Mr. DARMAN. You would be a better judge of that than I, sir, but I might be influenced by my hope; my strong hope is that it not do so, because I think that really would have very severe adverse effects.

Mr. YATES. I should have used the expression that Mr. Conte uses in his treatment of the Gramm-Rudman bill. He refers to that as the "Grim-Rudman" bill. You don't accept that, though?

Mr. DARMAN. Well, what I have said is that it should never be our preferred way of legislating to appropriating, never. The more rational way to proceed is always to make intelligent, discriminating choices. We may not agree about exactly what those choices should be, but I think we agree that we should try to make them.

Gramm-Rudman is mindless. In that sense it is irrational. But on the other hand, if the political system fails to do the job in a more rational way, then given a choice between not doing the job at all and doing it in the second best way, I think it is very important to do it in the second best way, to make sure something is done, otherwise we would all pay a price in loss of confidence, higher interest rates, declining economy and so on.

CLEAN COAL TECHNOLOGY

Mr. YATES. Let me turn to another subject in the bill that comes before the subcommittee of which I am the chairman. For over a decade Congress has been supporting research on ways to use coal in an environmentally sound manner; also to develop clean substitutes for imported oil, which all of us are looking forward to.

Now, the budget continues to show a lack of support for advanced coal technologies by the administration since 1981. In 1990, the program level is $275 million. In 1991, the request is $110 million. Do you know what the request was 10 years ago? It was over $1 billion, understandably so because coal is the one resource that is our greatest resource. We still haven't learned how to treat it so that it becomes environmentally sound.

My question is, why has the administration reduced this appropriation so drastically for the next fiscal year?

Mr. DARMAN. I don't recall the exact reason, and I apologize. I can get it for you. My recollection, which may be quite wrong, is that there was something in the pattern of the expenditure last year which was non-recurring. It was relatively substantial. The decrease is 100-and-some-odd million dollars, I believe, but I would have to check on that.

Mr. YATES. I am not going to press you on it, except I am advised by staff that the reason you have advanced from your memory is not a sound one, but it is a program we have sustained over the

last number of years in a very coherent and rational manner, that I think you will find there is another reason other than the one you have advanced.

I would appreciate your taking a look at it and giving us what the actual reason was after you have had a chance to look at it.

[The information follows:]

REDUCTION IN FOSSIL ENERGY R&D APPROPRIATIONS

The FY 1991 budget request for coal-related research programs (in the Department of Energy Fossil Energy R&D account) is $110 million in BA, a reduction of $165 million from the FY 1990 enacted level of $275 million. Separately, the budget also proposed $456 million in BA and $270 million in outlays for the Clean Coal Technology program. The FY 1991 outlay level for Clean Coal Technology represents as $118.5 million increase (78 percent) above FY 1990. Overall, the FY 1991 budget represents a net increase in outlays for coal-related R&D in both programs.

There are several reasons for the proposed reduction in coal-related R&D activities in the Fossil Energy R&D account. First, as a result of the administration's strong support for the Clean Coal Technology Program, many new coal technologies are moving into commercial readiness, resulting in less need for some of the activities formerly funded in the fossil energy R&D account. In fact, many of the emerging new technologies supported in the Clean Coal Technology Program were originally developed without DOE R&D support. Second, the reduction in coal-related R&D activities is part of a broader re-balancing of energy technology R&D activities, including a major increase in solar/renewables energy technology R&D, and conservation technology R&D. Third, many of the specific technologies proposed for reduction have been judged to have low return. These include research on synthetic fuels technologies and magnetohydrodynamics (MHD). These judgments were arrived at in close consultation with the Department of Energy and the Office of Science and Technology Policy.

Finally, there is little evidence that successful technology development in applied R&D areas such as fossil energy is determined by how much money the Federal Government spends. Between 1980 and 1990 the Federal Government spent almost $5 billion on fossil R&D (not including the $2.5 billion dedicated to the Clean Coal Technology program or the billions spent on synthetic fuels projects and on tax subsidies (oil shale, tight gas, etc.)) but has few commercial successes to cite. Unlike the Japanese, the DOE R&D programs tend not to involve in a cooperative way the ultimate consumers of the technologies, i.e., private industry, in planning, conducting, and paying for the research.

Mr. YATES. Doesn't it make sense to support coal technologies that will provide for a clean treatment of coal and reduce its impact upon the environment and upon the atmosphere? Why would OMB be opposed to developing this very replete resource as a substitute for the use of imported oil, which is increasing every year?

Mr. DARMAN. A member of my own staff has helped refresh my memory, but actually I don't remember this, but I will tell you what I have in front of me.

What this says is that all we have tried to do is spread the appropriation over several years and smooth it, that it doesn't represent a decrease in a commitment to the program.

Mr. YATES. Mr. Darman, I think you are talking about the clean coal technology program.

Mr. DARMAN. Isn't that what you are talking about?

Mr. YATES. No, I am talking about the research and development program itself for coal. It is an entirely different appropriation.

Mr. DARMAN. Okay, just a second. I will see what wisdom I have on this subject.

Mr. YATES. Well, it is sitting behind you.

Mr. DARMAN. That is right. I don't think this gives a justification which you would find fully satisfactory, and I don't either. It simply identifies where the reductions are. They are focused on largely R&D at the centers in Morgantown, West Virginia, which I am sure Senator Byrd won't be enthusiastic about.

Mr. YATES. That is entirely probable.

Mr. DARMAN. And Pittsburgh, Pennsylvania.

Mr. YATES. Mr. Murtha may have a problem with that.

Mr. DARMAN. And on the management overhead and support contractors at those two sites. I don't know what is wrong with those two sites, at least based on this, I don't think it is a problem with the program as a whole, but what is going on at those two sites, I will examine it and get back to you.

Mr. YATES. I would appreciate that.

[The information follows:]

REDUCTIONS FOR FOSSIL ENERGY R&D OVERHEAD EXPENSES

Within the total for the Department of Energy Fossil Energy R&D account, the FY 1991 budget proposes a $30 million reduction in BA (from $52 million to $22 million) for management and overhead expenses of the Fossil Energy R&D Technology Centers at Morgantown, West Virginia, and Pittsburgh, Pennsylvania. This reduction is based on three factors. First, reductions in overhead expenses are proposed commensurate with the proposed reduction in direct R&D program activities. Second, reductions are proposed in the overall level and ratio of contractor support personnel. The two Energy Technology Centers currently have roughly one support contractor employee on site for every civil servant. Third, and perhaps most importantly, reductions are proposed in administrative and overhead expenses by shifting R&D activities currently performed by in-house staff to contract with private industry. The in-house R&D projects at the Centers have not had a track record of success. It is our belief that shifting these activities to cooperative R&D projects with industry will increase the prospects for commercial success.

RESEARCH AND DEVELOPMENT ACTIVITIES

Mr. YATES. You are proposing to cut programs such as fuel cells, new heat engines, magnetohydrodynamics, programs that have been supported by our committees for years. Japan is struggling very hard to take the lead in fuel cells and spending literally millions if not billions of dollars trying to establish a leadership in that.

We on our committee are afraid that those developments may go the way of the chip, of the small chip that Japan now has almost a complete monopoly on. Does it make sense to reduce these programs which would mean so much in advancing the industrial strength of the United States through research and development and literally turning over to Japan leadership in these areas?

Mr. DARMAN. As a general matter, I think if we are spending on research, that is applied research on the civilian side, or defense——

Mr. YATES. That is not what we are doing here——

Mr. DARMAN. That is of generic value.

Mr. YATES. It is not in the case of magnetohydrodynamics. We have spent hundreds of millions of dollars on that program so far. It seems to me to literally turn off our research and development into what scientists say is a most promising development just doesn't make sense at all. I know that——

Mr. DARMAN. I haven't tried, Mr. Yates, I haven't tried to go through every line of research and substitute my judgment for people who are better informed than I. What I have tried to do is to steer this in terms of some general areas of emphasis. What we did this year is had a budget review which was organized jointly with the Office and Science and Technology Policy and the Science Advisor to the President, to go through and make these particular discriminations, hopefully with some scientific basis for the judgment.

I can't give you that at the moment. I can get it for you. I can tell you the process included the Science Advisor in a way it never has before, it hasn't in a decade. I can't defend a particular——

[The information follows:]

FURTHER CLARIFICATION ON FOSSIL ENERGY R&D REDUCTIONS

The composition of the reductions in the coal-related R&D activities in the Fossil Energy R&D Program reflect the results of detailed discussions among the Department of Energy, OMB and the Office of Science and Technology Policy. While the administration doesn't believe that it is appropriate here to go into all of the details of these discussions, we would simply note that all three agencies believe that the overall funding level should be reduced from the FY 1990 level. Some of the reductions in the FY 1991 budget, such as HMD technology, were proposed by the Department of Energy, with the concurrence of OMB and OSTP.

Mr. YATES. I will say, Mr. Darman, we will meet again when our bill comes before you for review. I take it our committee may very well put funds into those research and development programs.

Mr. DARMAN. We would like to work with you along the way, too.

Mr. YATES. I look forward to that. I would like to work with you, too, Mr. Darman.

Chairman WHITTEN. I now yield to Mr. Roybal of California. I need not warn you to be careful what you say, because all of you have to go before Mr. Roybal's subcommittee, which covers the White House, the Office of Management and Budget, the Treasury, and the Chief of Economic Advisers. You will have to face him later to justify your agency funding requests.

Mr. ROYBAL. Thank you, Mr. Chairman.

Mr. Darman, since it has been mentioned that I am chairman of that subcommittee, I will get to the point. That is with regard to the Customs Service. I firmly believe what weighs heavily upon this Nation is narcotics, both the introduction of narcotics and the use of narcotics in all segments of our population.

I am particularly concerned about narcotics being used in almost every grammar school, junior high school and high school in this Nation. One of the agencies that is the front-line agency in the interdiction of narcotics is Customs.

On page A977 of the President's budget you show a full time equivalent personnel level of 16,663 in FY 1990 and a proposed level of 16,349 in 1991, a reduction of 314 positions.

I would like to know why it is that OMB has proposed cutting the Customs Service by over 300 full-time positions in 1991?

Mr. DARMAN. It is not consistent with the figures I have, Mr. Roybal, but since the Secretary of the Treasury oversees Customs, let me see if he would like to respond. If not, I will.

Secretary BRADY. Mr. Chairman, that figure is unfamiliar to me as well.

Mr. ROYBAL. How much did you cut it? How many positions?

Secretary BRADY. I think we are showing base staff reductions of 538 FTEs during 1991. Overall, our budget reflects reductions of 691 FTEs encompassing the base reductions, A–76 savings, and a transfer to Justice, partially offset by an increase of 377 FTE in new program initiatives. Overall, the Customs budget contains a reduction of 314 FTE in 1990.

Mr. ROYBAL. That would be even worse.

Secretary BRADY. That has been a situation that we have dealt with over the years by not taking people off the line, but by trying to cut down on the overhead, and we have been successful doing that.

Mr. ROYBAL. There are reductions in the overall personnel, and nothing is being done to increase personnel in an agency that is actually responsible for the interdiction of narcotics.

It seems to me unwise, to say the least, that such a thing could be recommended.

Secretary BRADY. There is some reduction, but I would say to you, Congressman, that the reduction is in the area of overhead and not on people on the firing line. The Customs budget is down. Our request is down in 1991 from 1990. But 1990 was increased by over $100 million because of the purchase of airplanes which are now in there.

Mr. ROYBAL. Whatever increase was made was made by the subcommittee over and above the recommendations made in the budget.

Mr. DARMAN. Mr. Roybal, could I give you one number? At least on my numbers, the drug-related personnel in Customs, people who are working directly related to drugs, which is your introductory concern, my numbers for FTEs are 5,316 in 1990. It is an estimate. Going up to 5,439 in 1991. That is if you include the organized crime people. If you don't, it is 5,090. It goes up to 5,123.

So, consistent with what Secretary Brady said, the actual people on the line worrying about drugs, I believe the number is intended to increase.

Mr. ROYBAL. But personnel is to be reduced by 500 according to the testimony just given, which means that there has been a reduction in personnel when it comes to Customs. Now, another thing that has been reduced is the operations and maintenance in the air interdiction program. That was reduced by $87 million.

This is another function that is most important in the interdiction of narcotics. The total reduction in this whole Customs Service is $29,233,000, over a $29 million reduction in the department that deals directly with the interdiction of narcotics. If that is a true demonstration of how much we care about narcotics going into every school in this Nation, then it is a sad commentary.

Secretary BRADY. Mr. Chairman, I would only amend that to say that excluding the one-time cost of airplanes purchased for Customs, the drug budget of our five drug related agencies increases from $703 million in 1990 to $778 million in 1991.

Now, if you would exclude the one-time purchase of airplanes in Customs, that budget also shows a healthy increase.

Mr. ROYBAL. This comes under operations and maintenance, not just the purchase of airplanes. We are talking about operating and maintaining airplanes already in place. When you operate airplanes, you actually are involved in the direct interdiction of narcotics, and you are proposing a reduction of over $87 million in the essential program.

Let's go to another part of this budget that we have to deal with in our Committee. That is with the comprehensive health care. It is my understanding that the Pepper Commission, the HHS Secretary, the Advisory Commission on Social Security and the administration will complete their work on comprehensive health care by March the 15th.

The 1991 budget is silent on this issue. If these two commissions were to all agree on a health and long-term care reform package that would probably add, let's say, $50 billion, would that be supported by the administration? I am just taking that figure out of the air.

Mr. DARMAN. Unfinanced? No.

Mr. ROYBAL. You were able to do a great deal about many other things that were not in the budget.

Mr. DARMAN. Well, Mr. Roybal——

Mr. ROYBAL. What about this? What would happen if such a recommendation were made? I don't know what they are going to recommend, Mr. Darman, but suppose they did?

Mr. DARMAN. I think what is supposed to happen is the Pepper Commission, is to report its recommendations in March and the Steelman Commission reports in June, and Secretary Sullivan is supposed to have a review through the Domestic Council. I think that is supposed to report by September.

So, I would doubt that whatever we are talking about is going to affect fiscal year 1991, because even if we did come up with something we agreed upon collectively, the lead time for implementing it will make it a fiscal year 1992 or 1993 issue at best.

Mr. ROYBAL. What I am asking is whether you would endorse it or approve of it, or would you oppose it if any increase were to be recommended by these commissions.

Mr. DARMAN. I can't give you an answer without knowing the particulars. We can't say absolutely we would be opposed to an increase, because we all know that there is a large problem of the uninsured, 30-some-odd million uninsured, and we have serious questions of how to finance long-term care so there will be a price tag associated with it for sure.

But I doubt it would rise to the $50 billion a year level. I hope it doesn't.

Mr. ROYBAL. It seems to me that this commission is spending all this time coming up with a program that may, in fact, be opposed by the administration.

Mr. DARMAN. The President has some members on the commission, as you know. Right now, I think the commission is internally split. But I wouldn't pre-judge it. We don't have a predisposition to reject or accept what they have come up with. We want to review it on the merits.

The President himself said it—although it doesn't say in it our budget—in the State of the Union that we had to act on this. He was asking Secretary Sullivan to review all of these reports.

Mr. ROYBAL. Let's go to another subject, then, that has been of great interest to the committee and to, I think, the people of the Nation. That is with regard to Social Security. You state that the surplus would be approximately $62 billion. In 1991, it would be approximately $80.3 billion. Now, by 1993, when it is your intention, your recommendation that it be off-budget, how much will the Federal Government owe Social Security by that time?

Mr. DARMAN. My quick, off-the-top-of-the-head guess would be it must be about $450 billion. It might be a little higher. Let me get you the right number. I have it here.

Mr. ROYBAL. I would like to have that right number, but let us continue and take a $500 million estimate. How much interest will the Secial Security get on that $500 million?

Secretary BRADY. How much interest?

Mr. ROYBAL. Yes, you are borrowing from the Social Security Fund.

Secretary BRADY. It would depend on the market rate at that particular time, but if $400 million is about right, if the interest rates were 10 percent, they would get $40 million.

Mr. ROYBAL. So, you would actually then, if it was four or $500 million, calculate 10-percent interest based on the entire amount?

Mr. DARMAN. I have the numbers here. The projected balance on our numbers for 1993 would be $492 billion, and the interest obligation on that money in 1993 would be 31, and next year 37.

Mr. ROYBAL. So, you don't pay 10-percent interest?

Mr. DARMAN. No, you have a portfolio that reflects all different maturities.

Mr. ROYBAL. But if you went to borrow the money, it would be at least 10 percent?

Secretary BRADY. No, it would depend on what we issue to the Social Security Trust Fund, it depends on what the interest rate is, and the particular maturity that is being purchased. It could be, if the market were 7, it would be 7. If it were 8, it would be 8.

Mr. ROYBAL. Since it will be off-budget, you say, by 1993, we are going to correct the situation, are we not, in 1993?

Mr. DARMAN. Yes, sir.

Mr. ROYBAL. Therefore, we have been wrong in borrowing money from the Social Security Trust Fund all these years?

Secretary BRADY. I think the Social Security Trust Fund, as I am sure we are all aware, is funded by the payments from individuals and from corporations. Right now, it is going into the fund reserve to pay for the baby boom obligations that will be forthcoming when the baby boomers retire.

Mr. ROYBAL. It is being used to lower the deficit at the expense of the people who make a contribution to Social Security.

Secretary BRADY. There is no contribution from the Social Security Trust Fund to anything. We go out and buy U.S. Treasury obligations. That's all we do.

Mr. ROYBAL. I understand how it is used, but the thing is that originally it was established as a trust fund and for many years at the very beginning we didn't borrow very much from Social Securi-

ty. It wasn't until later years, when the surplus increased, that we started to do that. And now we are doing it and we are paying less interest than we pay if we go out on the open market to borrow the money.

I don't think, Mr. Darman, that that is a good policy.

Mr. DARMAN. The problem, Mr. Roybal, is this: Let me say what I think the problem isn't first. As Secretary Brady is saying, Social Security's reserves now do hold the best security you can have, U.S. Treasuries. The real problem is if we don't manage the rest of our affairs correctly so that when it comes time to redeem those securities, we have a tough time doing so and the problem comes really from the interaction between the decision in 1983 to build up reserve and the Gramm-Rudman Act in 1985 and 1987 which said that you could count that build-up against the consolidated deficit for Gramm-Rudman purposes.

So to some extent we have been misleading ourselves about the true size not of the Social Security problem, but of the non-Social Security portion of the budget and what is going on in it so the value of the correction you are talking about is it will give us a clearer picture of the size of the deficit outside of Social Security, and as we get that under control, then we will have less debt held by the public. And when it comes time to redeem these Treasuries, which are building up just the way they should in the Social Security reserve, we will be able to do it without an undue financial burden or tax burden in the future.

Mr. HEFNER. Would the gentleman yield for just one second?

Do you borrow from the Highway Trust Fund and the Aviation Trust Fund and all other trust funds in the same manner? Do you borrow from them the same as you do Social Security?

Mr. DARMAN. It was done in the past, but this year we are not doing it with respect to highways or air. Technically it isn't that you borrow from them, if I may say, but I know what you mean. For the retirement funds the answer is, yes. For the infrastructure funds the answer this year is, no.

We switched to a whatever-comes-in-goes-out basis.

Mr. HEFNER. So it is pay as you go now on the infrastructure funds. You don't have any trust fund?

Mr. DARMAN. There is still a positive balance for both air and highways, but that balance will be coming down as we invest more rapidly than the revenues come in.

Mr. HEFNER. Are they not showing any interest now for the highway fund? What are they investing in?

Mr. DARMAN. Treasuries.

Mr. HEFNER. So it is the same as Social Security?

Mr. DARMAN. That's right.

Mr. HEFNER. Infrastructure money and all at this point? Not just the retirement. I am talking about the trust fund.

Mr. DARMAN. In those cases, the question you asked at the start was are you using them this year to cover the deficit. The answer is, no.

Mr. HEFNER. No, what I said was do you use the other trust funds the same as you use Social Security. I didn't specify this year. I was just talking about it in general.

Mr. DARMAN. We did in the past before I was OMB Director. We are not doing it now for the infrastructure ones.

Mr. HEFNER. I thank the gentleman for yielding.

Chairman WHITTEN. At this time I yield to the gentleman from Indiana, Mr. John Myers. He and I have worked together a long time. He is the number three Republican on the committee and the ranking Republican on the Energy and Water Subcommittee. I will say for the record I have never seen John fail to carry his load, whatever it is. We are proud of our committee for being a bipartisan committee.

Mr. MYERS. Thank you, Mr. Chairman, and thank you for the kind words. Sitting here listening to the discussion from our side and from your side, I realize the 20 years I have been on this committee, nothing really seems to change except faces.

As I look down at my colleagues here, it changes more on the witnesses side than on the members side, but I guess that is understandable. There has always been the dialogue where the administration advances a budget request, particularly from Congress, if the request came from an administration opposite the political party up here, we have been critical of the budget request, finding all kinds of fault with it, calling it dead on arrival and all those kind of descriptions of the budget.

But I do notice one thing here that has remained rather constant, that there are certain things that the Federal Government certainly does have a responsibility, and others where we have been through the years, particularly after the depression, we started getting the Federal Government more involved in some areas that used to be left to the private sector, State and local government. But we in the Federal Government thought we could do a better job, and I think in the years that I have been here, I think we ought to redirect how the American taxpayer money is spent.

I think this is what you are talking about today. I am quite certain this is it. There are certain areas, like national defense. The only place national security money comes from is from the U.S. Treasury, from the Federal Government, but others such as education, where, of course, the Federal Government has an interest and responsibility, research, drug enforcement and environmental, and all of these things the Federal Government does have a share of the responsibility.

But we have gotten away from how I think the Federal Government's money should be spent. We have many in government and out of government and particularly in Congress who feel that we in the Federal Government can decide better how the taxpayers' money is spent than they would have if we left the money at home, that we ought to transfer it through Washington, and through the years I have been here, the handling cost is just too great.

Because of that, we have brought pressure on local government and the private sector. I have seen that particularly in research where industry used to carry a lot of heavy burden of research, and the industries that I have talked with, they just simply have about dropped out of the research.

They have left it to the Federal Government through our research and through the institutions that we fund to do most of the burden of research.

Now, I will start asking questions. I remember back when President Reagan was trying to get his tax cut through, I was opposed to it, still am, and I recall a number of discussions I had with President Reagan. I asked him why don't we direct that tax cut.

He said he had made a commitment to the American people during the campaign that he was going to cut taxes, and I wouldn't disagree with that, but I think at that point and any time a balanced budget would have been a greater stimulus to the country than the little dinky tax money we got back.

I have asked a great many of my taxpayers how did you spend your tax cut. Do you know what most of them say? "What tax cut?" Think of the impact a balanced budget would have on the economy and on the world situation today. So I was opposed to that tax cut and asked the President why he didn't direct it.

Now, in—I think it was Mr. Secretary Brady, in your statement, you identified that today the private savings is about the lowest it has ever been, much below the national average. Has any thought been given to the consideration of drafting a new tax bill—that would be the only way I would ever vote for a tax change today—to stimulate savings?

We all know that behind every job other than a government job, there has to be a capital investment, and that comes from some place. And savings is one of the places where money is created for housing in the private sector. Have we ever considered rewriting the tax code, of eliminating from taxable income a greater portion of dividend and/or savings income so we can stimulate things, get that money.

You say in your prepared text that we are going to have to stimulate it more. But how about trying it another way, letting the private sector raising the money without the collection effort coming through Washington?

Secretary BRADY. Well, Congressman Myers, you put your finger on exactly the right point. The President has transmitted to Congress a Savings and Economic Growth Act, which he hopes will be enacted. And it is directed pointedly at the savings problem, which, as you say, is lower than our historic levels and vastly lower than our international competitors.

That Savings and Economic Growth Act contains three pieces to it. One is the capital gains reduction, which is aimed at giving a long-term reduction and a reduction in capital gains taxes to those who hold securities for more than three years, which is to allow the investment in our country to become more long-term.

The second part of it is in the institution of a new idea which is the family savings account, which allows families to put $5,000 (or $2,500 for each of two people) or $2,500 if it is just an individual, into a family savings account, which is allowed to accumulate interest tax-free over seven years.

The interest will be accumulating tax-free, and at the end of the seven years the total amount of funds are allowed to be taken out tax-free. Obviously, this can be used for any number of savings purposes, whether it is education, unforeseen health problems or the purchase of a new home. The third part of the Act is to allow a tax-free removal from IRA's of up to $10,000 for the purchase of a first-time home. I am not saying that this bill will go through

intact without any amendments, but we hope it puts a flashing light on the problem that you are referring to, which is the fact that we have got to do something about savings in this country.

Mr. MYERS. Well, I was sorry to see IRA's struck on the last tax bill. I thought IRA was a great program of encouraging particularly young people because I see today our children and grand children, how are they ever going to prepare for their retirement? They have to depend on Social Security, I guess, but because it is so difficult for them to accumulate, but it seems to me that IRA was a good way for individuals to supplement their retirement and provide for their retirement, and I think the government would get it back many fold.

In fact, we don't have to take care of them on welfare roles and elsewhere, and I was sorry to see that struck, but true the capital gains tax will be a help, and I will support a reasonable change in capital gains. But there gain, investment has to be made before you can benefit from the capital gains structure, any change in it, the investment had to have been made first, but I have been trying to think of the young people who don't have an investment today, who want to prepare for a new home, for the first home or an improvement or for whatever purpose, their children's education, the various reasons why people would want to save.

The money, once it is saved, is going to be available for someone to loan out again for investment, to create new jobs, to increase the productivity of our country. So this is what I am thinking about is encouraging more people to save, and I hope some thought will be given, as you have suggested here, and I hope Congress will consider that.

One last—I am going to try to make it back on the 10-minute rule. I have got about two minutes left to stay on the 10-minute rule. We have been critical of the sequestration, and I think all of us have been.

I didn't vote for Gramm-Rudman. I am a conservative, at least considered by my constituency to be conservative. Some think too conservative; others not conservative enough. I voted against Gramm-Rudman, even though I want a balanced budget.

I didn't like the procedure. One of them is sequestration. I think all of us find it distasteful. I think most of the fault lies up in Congress, and I am sure as we face the reconciliation later this year. If we in Congress will do our job, we can avoid sequestration, something all of us dislike, but I think it is a little unfair to be critical of you who have to administer law that was passed by Congress, be critical of sequestration.

It has worked. It hurts some, too, but at least it brought back what we didn't do. So I think sequestration should be avoided, but we have it with our capacity here to avoid sequestration and to do something about balancing the budget.

In closing, to be critical of this President or any President for overspending, do you know of any dollar that the President, this President or any other President has ever spent that Congress didn't have to authorize? Is there a single penny the President can spend that we didn't have to approve?

Mr. DARMAN. No.

Mr. MYERS. So it is a little unfair to sit back and throw rocks at this President or any other President, democrat or republican, and be critical of them. Sure, they make the request, but we ultimately have the decision how those dollars are spent. The correction should be made. I don't agree with President Bush's budget entirely.

We are going to make some changes, but basically bringing back spending is the only way that we can accomplish a balanced budget and restore faith in our government, faith in our government, our country, and to balance the budget.

So my time has expired. I am going to do my part. I think it is give and take. We are going to do some things you are not going to like and you are going to do some things we don't like. But I think we have to compromise. That is something that didn't happen last year in reconciliation. I am sure if reconciliation were left to the Appropriations Committee, we could handle it as the Chairman has said.

Unfortunately, we have to include others in that decision-making. Thank you very much for your appearance today. I appreciate it.

Chairman WHITTEN. My answer is we need production. The committee stands in recess until 1:30.

AFTERNOON SESSION

Chairman WHITTEN. The committee will come to order.

I recognize Mr. Stokes at this time, a valuable member of the committee.

Mr. STOKES. Thank you very much, Mr. Chairman.

Mr. Darman, earlier this morning in your exchange with Mr. Roybal relative to the amount of money that would be owed the Federal Government in 1992, you made reference to some charts that had projections on them. Would you at this point in the record insert those charts?

Mr. DARMAN. Yes, sir, I would be happy to. They were with respect to the Social Security balances.

Mr. STOKES. Yes, the projected interest and balances.

Mr. DARMAN. I would be happy to.

[The information follows:]

1991 PRESIDENT'S BUDGET: SOCIAL SECURITY TRUST FUNDS—BALANCES AND INTEREST—
(COMBINED OASI AND DI TRUST FUNDS)

[In billions of dollars]

	Fiscal years					
	1990	1991	1992	1993	1994	1995
Balance at beginning of year	157	219	299	392	500	624
Annual surplus (excluding interest)	46	60	69	77	88	94
Interest	16	20	25	30	36	43
Balance at end of year	219	299	392	500	624	761

Mr. STOKES. I want to follow up on a line of questioning engaged in this morning between our distinguished subcommittee chairman,

Mr. Natcher, and yourself regarding education. The President's budget calls for rapid expansion of research and development programs throughout the government.

Two of those areas are space exploration and human genome research. However, correspondingly high increases have not been requested for higher education. You stated that you believe that education is not a public responsibility, yet the rapid expansion in research and development will create a demand for researchers and other highly skilled workers.

My question is, how do you expect to sustain this level of research and development unless we expand opportunities for higher education? We are not now attracting enough young people, particularly minorities, into the higher education pipeline.

I think that the United States Government would need to give more support to higher education in order to meet the demand for highly skilled workers that we are going to encounter in the next century.

What is you response to that?

Mr. DARMAN. Thank you, Mr. Stokes.

I hope I didn't say that I did not think education was a public responsibility. I, of course, think it is a public responsibility. I was trying to emphasize that it is a shared responsibility: Federal, State, local, private. It is not exclusively Federal. I was contrasting it with defense.

Now, within education, there is a heavier private role at least in the direct funding of higher education, and we don't propose to change that relationship. You are correct about the increased investments in the areas of research that you alluded to, and I would note two things:

One, those investments themselves will accrue to a substantial degree to the benefit of higher education, because a great deal of the research that is done is done through grants to institutions of higher education or associated Institutes.

MINORITIES IN INSTITUTIONS OF HIGHER EDUCATION

Now, the part of your question, however, that I think may merit special attention is the one that deal with whether there are enough minorities being educated with higher education degrees, and just as what is really a matter of coincidence, when the President was meeting this past weekend with his science advisors, outside science advisors, there was a discussion of exactly this—I don't know if I want to say problem, but statistical phenomenon that, I think I am correct, the order of magnitude was something like only about 200 Ph.D.s in science and engineering going to non-Asian minorities per year.

We were talking about what additional efforts could be made to double or triple that number. It was noted that if you simply had each science and engineering degree granting program in the country grant one Ph.D. per year to a non-Asian minority, you would immediately double the number of such Ph.D.s.

So, we could actually make substantial progress if we were a bit more aware of this problem than at least the group I was in was

initially aware. So, I think we are now at least aware of it. It looks to me like it ought to be a manageable target.

The first half of your question, just to summarize, I do think we care about higher education not only through the loan programs, but I think the investment. On the latter part, doing more to help minorities especially the quantitatively based higher degree programs.

I can't tell you that I think we are doing enough, but I can tell you that we are at least trying to figure out how to do more.

Mr. STOKES. I appreciate that, and I am particularly interested in that part of your response indicating an awareness of the problem that the country is going to be confronted with. Work Force 2000 and other reports tell us that in the year 2000, 10 years from today, one-third of the new entrants into the work force in America will be minorities.

By the year 2020, we are told that 39 percent of the work force in this country will be minorities. So, it certainly behooves us at this juncture to be thinking ahead about this unique issue confronting our country.

PEACE DIVIDEND

Another issue I am particularly concerned with, and I think most American people are concerned with is defense spending. Over the last eight years, under the Reagan Administration, we saw approximately $1.2 trillion put into our military budget. That was done at a considerable sacrifice on the part of the American people.

We look around now and see the Berlin Wall tumbling down, and movement toward democracy in the Eastern European countries. In fact, all over the world there is a movement away from militarism and towards peace. The Soviet Union is dismantling its military machine. It is only natural that the American people, having made many sacrifices, would now want to experience, in turn, a Peace Dividend, something to compensate them for the sacrifices they have made in social programs over the years. During the eight years that the Reagan Administration was building up the budget to $1.2 trillion, many of our social programs were being cut.

Now we see the administration's current military budget coming in with an increase of $7 billion, approximately a 2-percent increase. So, it seems as though we are maintaining the same militaristic mode. People are wondering what happened to the Peace Dividend. When?—If not now, when?

I wish you would give us some indication when we are going to be able to expect to see a Peace Dividend?

Mr. DARMAN. Thank you very much, Mr. Stokes.

Let me cite a couple of statistics and then add a verbal gloss in response to your question. If you look at the defense budget that the President has proposed with minus 2.6 percent real growth and then minus 2, minus 2, minus 2, and you compare that with the Gramm-Rudman-Hollings base line, you will find that over the five years, the President's budget is $128.3 billion in budget authority below the base line.

So, if the Congress granted the President his full request, you would, relative to the Gramm-Rudman-Hollings base line, be saving $128 billion. Now, that is no small dividend. In addition, I would note that we contend, although others differ with this, that the relevant comparison is not with the Gramm-Rudman-Hollings base line, but rather, with what would have been the true cost of the previously approved defense program.

If you compare the defense budget over the same five years with the true cost as we estimated of the previously approved program, the President's budget, the five years minus two and a little, would save about $230 billion in budget authority. That, too, is a substantial dividend.

So, there is already an ability to tell the American people that there is a substantial Peace Dividend in the President's own proposals. I realize that some in Congress feel that it hasn't gone far enough, but I am only trying to make the point that it already reflects a rather substantial dividend.

Now, one of the problems that I think people are having in dealing with this is that this dividend is substantial when you get to the fifth year. Relative to the Gramm-Rudman base line, it is about $41 billion in savings in the fifth year alone.

The problem is, mentally, people have that amount right now. And the amount that is in the budget that we propose relative to Gramm-Rudman is only 10.3 in reduction in the first year in authority, relative to Gramm-Rudman-Hollings. It is substantially more than that relative to the true cost, more like $22 billion.

I think that the frustration that is experienced in some quarters in Congress at the moment is not so much with the out-year size of the dividend as it is with how far you can actually bank it.

I think that when—obviously, Mr. Murtha will have more to do with this than I will, but I think when careful consideration of this issue is complete, that the Congress will find that some of these very large numbers that are being talked about as to the immediate dividend are just not feasible or prudent.

One of the reasons I think that will turn out to be true is that even when you take these radical cut programs such as you may have seen in Time Magazine, they are dealing with radical cuts in budget authority on paper, but the actual outlay savings from those radical cuts are very small.

So, even if you went to one of those radical programs, the amount of actual outlays that you yourselves, not only me, but you yourselves will calculate you can save will turn out to be disappointingly small from the perspective of those who are managing a great big near-term dividend.

Now, even—as you know, we fund the B–2 and SDI, and some people like to look at those as banks, what I call banks, big pots of money that can be raided for other purposes, but in fact, although we don't believe it would be prudent to raid those at all—Raiding those doesn't produce the kind of money that is being talked about as though it would be here on the table right away as a Peace Dividend.

So, you are left looking to troop cuts in Europe. I make two concluding observations there. One, the President has said, and Secretary Cheney and we collectively, that we think that it is only sensi-

ble to have those troop cuts take place in the context of a negotiated agreement with the Soviets so that we get 10 for one, which is what is being proposed and negotiated, and on a verifiable and somewhat irreversible basis.

That was point one. Point two is, even if the Congress decided to do what we think is imprudent under that heading you are still talking about, compared to the numbers people are throwing around, small amounts of money. An extra 100,000 troops is probably only another $3.5 billion. It isn't numbers like 10, 15, $20 billion as some people are suggesting.

So, for all these reasons, I would say the good news is, thanks to these historic changes, there is a substantial dividend that really gets to be significant in the third, fourth, fifth year.

And there is a very much smaller dividend, the less than good news, in the years one and two.

Mr. STOKES. Thank you very much, Mr. Darman.

I have serious concerns about the Budget presented here and the administration's concept of national priorities. Despite the changing global picture, the administration still seems to be in a militaristic mode. This is exemplified by a proposed defense budget increase of $7 billion coupled with the President's recommendation to dramatically increase strategic spending by civilian agencies. In the President's budget NASA get the biggest increase (+$2.9 billion or 24 percent) and Medicare, a program to assist the elderly and the handicapped would get the largest decrease (−$5.5 billion).

What does this say about this Nation's priorities? Where is the equity here?

Mr. DARMAN. One way of looking at the priorities in the budget is to note that human resources programs make up 52.9 percent of the total, compared to 24.6 percent for defense. The President's budget is the first in over 40 years to call for declining real defense spending not only in the budget year but for each of the succeeding four years. The Medicare "decrease" referred to in the question is a reduction for the baseline, not a reduction compared to 1990, and affects primarily payments to health care providers, not the elderly beneficiaries.

Mr. STOKES. Mr. Darman, you spoke in rather picturesque terms in your budget introduction about "hidden Pacmen" that are waiting to spring forward and consume our budetary resources. You cited as examples the rising cost of Medicare and other entitlements. However, included in the President's Budget is a capital gains tax cut, which the Joint Committee on Taxation confirmed would result in reduced revenue for the government in the long run.

Why don't you consider a capital gains tax a "Pacman"?

Mr. DARMAN. The proposed capital gains tax reduction is not a "Pacman" for two reasons. First, the Treasury estimates that it would gain, not lose, revenues for all five years of the budget projection. Second, by helping to spur investment and growth of the economy, it should improve revenues in the long run.

Assuming a March 15, 1990 effective date for the capital gains tax cut, Treasury calculated the revenue effects for the budget period 1990–1995 to be as follows:

[Fiscal years in billions of dollars]

1990	0.5
1991	4.9
1992	2.8
1993	1.2
1994	1.7
1995	1.4
1990–95	12.5

Mr. STOKES. Why is deficit reduction important only when considering programs that benefit certain populations—the poor, the elderly, and minorities?

Mr. DARMAN. Deficit reduction is important for the economy at large and therefore for all groups in the population. As for the populations cited in the question—the poor, the elderly and minorities—the budget contains numerous increases in proposed spending, though the question seems to imply that there are only cuts.

EXPERIMENTAL POVERTY STATITICS

Mr. STOKES. Mr. Darman, I understand that last year the Census Bureau undertook an exercise to determine an alternative poverty line. Under the alternative calculation they developed, the poverty rate for last year would have only been 11.6 percent, instead of 13.1 percent in the official statistics. Many Federal programs, such as Medicaid, Head Start, and Food Stamps use the poverty line to determine eligibility. Such a change could make several million low-income people ineligible for these programs. The Office of Management and Budget has the authority to set the poverty line administratively, without Congressional approval.

What was the purpose of this exercise, and do you intend to implement a new poverty line in the near future?

Mr. DARMAN. The experimental poverty statistics to which you refer appeared in an appendix of the most recent issue of a regular Census Bureau report on income and poverty. The Bureau of Labor Statistics (BLS), for whom Census performs the Current Population Survey on which official income and poverty statistics are based, requested that Census use an experimental index (called CPI–U–X1 to distinguish it from the official CPI–U index for all urban consumers) to develop consistent historical income data.

The CPI–U–X1 was developed because most experts have concluded that the method employed to measure the change in shelter costs for the CPI–U inappropriately included changes in the asset value of homes prior to 1983. In 1983, the official CPI–U adopted a rental equivalence approach to measuring shelter costs employed in the CPI–U–X1. While the new shelter cost method is generally regarded as superior, its adoption means that the CPI–U series is not calculated by a consistent method from its base year of 1967 to the present.

The purpose of including data based on the CPI–U–X1 experimental index was to provide users with an approximation of what income and poverty data would have been if the rental equivalence approach had been used consistently from 1967 forward in the CPI–U. As BLS makes clear in an appendix to the Census report, the CPI–U–X1 is only an approximation because data refinements necessary to recallculate shelter costs using the rental equivalence method are not available back to 1967.

The experimental poverty seris reflecting the CPI-U-X1 is only one of several experimental poverty series that the Bureau of the Census maintains. Another appears in a different appendix of the same publication. It applies the official poverty thresholds (using the CPI-U) but adjusts the definition of income in the official statistics (pre-tax money income not including capital gains) to include noncash private income and noncash government transfers and to exclude income paid for direct taxes.

The administration has no plans to use the CPI-U-X1 index rather than the official CPI-U as a basis for eligibility cut-offs for Federal means-tested programs. As this year's Economic Report of the President states, our understanding of appropriate measures of poverty remains far from complete. Additional research on relevant prices, consumption patterns, and family composition in the 1990s is needed to improve our understanding of the level and distribution of economic need and well-being in this country. Let me assure you that efforts to increase the utility of our economic statistics do not involve any plans to lower program eligibility levels.

JUVENILE DRUG USE DATA

Mr. STOKES. To what extent is the drug problem affecting young adults, teenagers and juveniles? Please provide me with any data of information you have on usage, arrests, homicides, incarceration, etc. Please provide national data, as well as any information you have on our Nation's largest cities. Please indicate if there has been an increase or decrease in this type of activity. And, please provide a demographic breakdown (race, sex, economic status, education status, etc.) of those young people who are losing the battle against drugs.

Mr. DARMAN. This request is for a broad range of detailed information on multiple topics. Much of the requested information may not be available without a considerable amount of research into a variety of sources. Insofar as the information can be obtained, the administration will seek to provide it expeditiously.

JUVENILE JUSTICE

Mr. STOKES. I made this inquiry, in part, because I was startled to see that funding for the Juvenile Justice programs has been drastically reduced. Approximately $81.8 million was provided in 1990. For FY 1991, the administration has asked for $7.5 million. Considering the need to develop more effective education, training, research, prevention, treatment, and rehabilitation programs in the area of juvenile delinquency—why has such a meager amount been requested?

Mr. DARMAN. Since 1975, the Juvenile Justice program has provided over $1 billion to states and localities for juvenile justice and delinquency projects. Funds are used to accomplish the major objectives of the program, namely: The removal and separation of juvenile offenders from adult offender populations, and the deinstitutionalization of status offenses, e.g. truancy. To the extent practicable, these goals have been achieved with the prior year funding. In addition, funds are used for juvenile justice projects in the areas of education, treatment, prevention, research, etc. However, these

programs require no non-Federal match and there is no specified time period for which a state may use the grants to fund a particular project. This enables States to use these grants to fund on-going programs that States should be funding themselves. Federal grant programs should not build reliance on Federal funding. Rather, Federal funds should help States initiate new ideas and programs that States will continue funding with non-Federal resources. We believe that States will continue to commit their resources to juvenile justice programs which have proven effective. (NOTE: The 1990 appropriation for Juvenile Justice Programs was $69.4 million, the 1990 estimated obligation level is $81.8 million.)

Mr. STOKES. I understand the $7.5 million will be used to continue a High Risk Youth Program that addresses the problems with gangs and drugs. While the drug crisis is most noticeable in the inner city where there are gangs, it is not isolated in the urban areas. And, it is not a problem which is peculiar to minorities. I have received hundreds of letters from junior high and high school students who attend school in suburban and rural areas. These young people have related many stories to me about the drug dealing and usage that is occurring in their communities and schools, and they are terrified. What amount of funding in the juvenile justice system will be used to assist those millions of kids who are not in gangs? Based on your FY 1991 Request, I presume none.

Mr. DARMAN. The Office of Juvenile Justice and Delinquency Prevention's (OJJDP) High Risk Youth Program does fund programs that benefit youth who are not in gangs, but it is not possible to estimate precisely how much. For example, OJJDP's National School Safety Center program assists schools in implementing a variety of strategies to create a safe school environment. The major purposes of the program are to identify methods of diminishing crime, violence, and illegal drug use in schools and on school campuses, and to develop innovative crime prevention and school discipline programs. Although the program is aimed at preventing illegal drug use by youth and teenagers who are at high risk of becoming abusers, the entire school population benefits. Similarly, the Bureau of Justice Assistance's (BJA) Anti-Abuse Grant Program funds several programs to help youths, among them: McGruff the Crime Dog reaches millions of children with a drug use prevention message; and the Drug Abuse Resistance Education (DARE) program places a uniformed police officer in classrooms to teach an extensive drug use prevention curriculum.

Mr. STOKES. Thank you Mr. Chairman.

Chairman WHITTEN. Now to the Defense Subcommittee, Mr. Murtha.

Mr. Murtha, would you mind coming to the chair? It is my pleasure to introduce Mr. Murtha, who heads the Defense Subcommittee. I have served on the Defense Subcommittee since 14 months after I came here, and that is a long time. Of all the subcommittee chairmen I have worked with, none has worked harder at learning his job than my friend, Jack Murtha from Pennsylvania.

Not only did he call all the top military people in the Pacific together to see what the situation was, he did the same thing for the Atlantic. In addition, we have visited several places in recent weeks, including London, Brussels and Norway.

And it is in connection with Norway that I wanted him to come here. In Norway, I found that 17 Norwegians in World War II were trained in Biloxi, Mississippi, which gave them all a good start. One of them was a cousin of our good friend, Martin Sabo.

In connection with that, we found out the history of the Vikings of Norway. They treated us royally, and in Jack Murtha, who had a wonderful record in the Marine Corps and kept it up in the Reserves, they felt if he was not a direct descendent of Vikings in 790 A.D., he was at least a kindred spirit. They requested me to present this to Mr. Murtha on their behalf.

This is an exact replica of the axes that they used back in 790 A.D.

We recognize Mr. Murtha for his statement.

Mr. MYERS. He can use it as a gavel.

Secretary BRADY. Would you put that down?

Mr. MURTHA. I believe I see some symbolism here, Mr. Chairman.

Mr. BOSKIN. You will get quick answers with that.

Mr. MURTHA. Director Darman, the problem we are having up here is with the words that you used this morning, "Peace Dividend." Of course, what you say is absolutely true. We are talking about reducing the force structure by 100,000 troops. We think you get less than a $3 billion savings the first year. When you don't acquire troops is one thing, but when you start pushing them out the other end, the first year you don't get that much savings, so you have to have substantially more than a 100,000 troop reduction in one year to get any large savings.

Obviously, our problem, though, is the change by the administration. The other day, I was in front of the caucus, and I was defending the President's budget, and the next day, the President came out and said he wanted to cut 100,000 troops out of Europe, and Barney Frank walked up to me and said, "I want you to know, Jack, I am having a heck of a time standing to the left of George Bush."

Now, I realize that times are changing dramatically, but I have some questions here that concern me. Last year, after the Administration sent the budget over, you asked for $2 billion to fund other programs out of defense. Those programs were substantial, and they were mostly foreign aid or related to foreign aid. It is hard for me to defend the budget against changes to fund domestic-type improvements or changes.

For instance, Mr. Natcher comes to me and he says he would like to see some money for education, or Mr. Stokes or John Myers or Larry Coughlin or anyone else wants money for programs that they feel are important, and they think it can be funded from defense, and I see $2 billion coming right off the top recommended or approved by the administration.

It makes it very difficult for us to operate. Is this budget you have sent over the final budget? I mean, you are not going to ask for money for Panama or for economic development in Europe to come out of defense?

Mr. DARMAN. Mr. Murtha, you make a very good point. Last year was a bad year in terms of raids on defense for Eastern Europe, for drugs, for NASA, for Coast Guard. Many of those, how-

ever, we did not favor, some we did. But I would say the largest dollar volume was done not because we proposed it, but because in the end, we acquiesced reluctantly in many instances.

I would very much hope that we would not do that. I can't give you an absolute promise, because I just am not sure that I could tell—I could tell you I want to honor it. I can't foresee every possibility that would arise. We certainly think it is a mistake to use defense as a bank for the rest of the Government. It is bad for defense planning. It is not really fair. It makes the appropriations process—well, I will leave it to you to judge.

But it does call into question sort of the orderly appropriations process if you go through a sensible process to develop a coherent program, and all of a sudden, something comes along and says we are short $2 billion for the drug supplemental, we would like to take 60 percent for it out of defense.

We don't agree with that, but you have caught me in immediate violation of my general rule, because you mentioned Panama. Our supplemental does, which went up, I think the night before last or yesterday. Our supplemental for Panama does involve fiscal year 1990 offsets from defense.

Mr. MURTHA. You see the problem I have then when I try to defend against the 302(b) allocation process. For instance, when the 13 subcommittee chairmen meet they would like to see a larger allocation for their programs and defense is source of funds.

It makes it extremely difficult to defend using defense funds when the Administration uses defense funds for other purposes. On top of that, last year one of the things that I have been so interested in is trying to make sure that the people get good medical care in all the Armed Forces. The cheapest and best medical care comes if we take care of people in the service hospitals themselves. It costs us about 43 percent less if we take care of them in the hospitals.

But another way to take care of people and dependents is in the CHAMPUS program. Last year, in the FY 1990 budget that you proposed to us, you indicated CHAMPUS was fully funded. That is something that we have to fund. It ended up at the end of the year, $450 million short.

Of course, we had to fund that in our final budget. This year's budget says it is fully funded. Are we going to have a $450 million shortfall in CHAMPUS again this year?

Mr. DARMAN. Well, we are at the mercy of our own estimating capacity. What I have done since I have come to OMB in all these areas, I have told all the OMB analysts that I want the estimates done right as best they can up front at the start of the year so we don't end up having supplementals and government by supplemental.

There may be other good reasons to want the estimates done right, but that is my principal reason. In this case, we believe we have done it right, but I can't guarantee it is done right.

Mr. MURTHA. Mr. Director, I just want you to know that the subcommittee and the Members of Congress want a strong defense. When we get a budget that is unrealistic, it makes it very difficult. If you take money continuously out of defense, all year long, to find other projects or where you have underestimated projects that

in the end have to be funded, it makes it very difficult for us to give you the adequate defense that makes a secure America.

Mr. DARMAN. We and Secretary Cheney and CBO have been working together, partly prodded by the Congress, to try to get our technical estimates in closer agreement and all of our spend-out rates in closer agreement so we have less of the problems that we have had in the past in this area.

Mr. MURTHA. You can see the $450 million shortfall for CHAMPUS last year, it is of great concern. So, we think this budget looks like it may be more realistic. I said to Secretary Weinberger for years, we weren't going to be able to fund defense if we didn't raise taxes.

Well, the Peace Dividend, I believe, is not having to raise taxes this year. I do think you are right. I think in four or five years, there will be a substantial amount of money available for domestic programs, maybe two or three years. But I don't think there is any way we can stop cutting defense. I think we are going to see some real cuts in defense, because the mood over here is that people feel they want some of that money to go into programs which have been underfunded, in their estimation, for a number of years.

Mr. DARMAN. Thank you, Mr. Murtha.

We look forward to working with you. We share a lot of the same concerns that you have, and look forward to working with you.

Chairman WHITTEN. I now recognizes Mr. Miller of Ohio. He is involved in many areas, and particularly on the Defense Subcommittee. Mr. Miller?

Mr. MILLER. Thank you, Mr. Chairman.

A question that we had just a minute ago from the chairman of the Defense Appropriations Subcommittee brings up another concern, and that is the possibility of bringing troops back from Europe, South Korea and, from several other locations.

As these troops are redeployed, it appears we would have a surplus of Army, Navy, & Air Force personnel. Yet, I see on television where we are still spending money to recruit, and it seems as though this is going to create some confusion on the part of viewing audience whom might feel the right hand doesn't know what the left hand is doing. If we are spending, and as I recall, the advertising budget for recruiting this year was in the neighborhood of $200 million.

Yes, we need to advertise but things have shifted now, and we are going to be bringing a lot of troops home and reducing our troops strengths accordingly. So, therefore, it appears that we should not be spending the amount of money for recruiting that we have been in the past in that we are now going to have a surplus of military personnel.

What do we have in this budget for recruiting?

Mr. DARMAN. Let me ask someone to get the answer while I make an oral comment. The comment would be this, Mr. Miller: You probably know better than I do that the rate of natural attrition and turnover is surprisingly high, or at least surprising to me. I believe it is about 375,000 per year in an armed forces of 2.1 million.

So, there is a need to get a certain number of people to re-up, but there is still a substantial need to keep recruiting in. You are talk-

ing about a natural turnover of, say, 375,000 a year, I am going from memory, but I think that is about right. The troop reductions that are being talked about are not anywhere near that large. That is all point one. We are going to need to have a very substantial recruiting effort.

Point two is, we have a volunteer army, and as you know, we are proposing only a 3.5 percent pay increase. I am not saying that it is non-competitive. I think it allows us to continue to be competitive, but it certainly is not the world's most attractive wage rate. So there has to be some recruiting above and beyond the direct economic incentive and the pride of joining the service.

But let me get the number for you. Oops. The guy with the numbers just left the room. I am sorry. He will be back in a minute.

Mr. MILLER. Fine, It just appears that maybe we should think of elevating the pay of those that remain in the service a little more than we do now, so that we can keep our trained people. It costs a lot to train, especially in the Air Force. We know what it costs to train a pilot whether it is a fighter pilot or whatever.

I know that you are not responsible for what is going on at present, but I think it is important that we take a look at it also. I have sent a letter to the Secretary of Defense, and I am sure that they will be looking at it also. But when we talk about the FY91 figure, if it is higher for recruitment advertising this year than it was last, we should look at some reduction, I feel.

In another area, while we are still talking about bringing back the troops, in one of the statements it told of an increase of $300 million to—I am not sure of the location—I don't think it gave all of the countries. As I recall, it was Poland and Hungary, but I don't see it right here. $300 million additional in aid.

My question is, are we going to have some type of resolution that would allow additional foreign aid funds because of the funds that would now to be allocated to the Eastern European countries that are attempting to become democracies?

Mr. DARMAN. We have in the fiscal year 1991 budget proposal an additional 300 million, roughly, for Eastern Europe. I think that may be what you are referring to. That does not come out of defense. That is in Function 150. This year, there was a transfer from defense, but we are not proposing a transfer next year. We propose to fund it directly out of 150. In addition, as to the substance of that initiative, we may be sending that forward as soon as today, what the character of the legislation is that we would like to see, to give shape to the funding of movement toward democracy in Eastern Europe.

We have developed this legislative specification. It is really just a question of someone's judgment in the White House as to whether we put it forward today. I believe it will be within the week.

Mr. MILLER. It appears——

Mr. DARMAN. It won't be out of defense, it is out of 150.

Mr. MILLER. I understand that. It appears with the thinking of what is going on in the administration and here on the Hill that there will be requests for additional funds to help those countries.

So, it appears to me that there is going to be some type of a resolution considered over and above this budget that would allocate additional funds for that purpose. That may go into billions and

billions of dollars. Undoubtedly, it would be worth it if we had democracies instead of the type of governments that the people have had in the past.

Does it concern you that we are going to increase the amount of dollars yet this year and increase the budget?

Mr. DARMAN. It would concern me if I thought that the money weren't a good investment and at least based on what I am familiar with to this point, I think our $300 million for Eastern Europe is a sensible level because of two points Secretary Brady may wish to comment on, or Chairman Boskin.

One, the reason we are celebrating the change in all these countries is that they are moving away from state-centered regimes to more market-oriented regimes. So, it would be inappropriate to say we are going to have government solve all of their financial problems.

But the second point is that this amount of money that we are talking about, whatever it is, is in addition to money from multinational development banks from an incipient consortium of European countries in the U.S. and Japan, and in addition to the private flows from banks and from investors that are really going to be the key if these countries are to turn more market-oriented.

They have to attract private capital, which means they have to change their internal policies very substantially on a predictably stable basis. Until you see enough steps taken where that is done, I think that an excessive infusion of public money could be throwing good money after bad.

Mr. MILLER. Mr. Director, we had in the latter part of the first Session of this Congress, a bill that did allocate funds for Hungary and Poland. They have not established as yet the type of democracy that we would like to see. They are still attempting to do that.

So, money apparently has been appropriated for that purpose without having them establish the guidelines of a democracy that we hoped that they would.

Mr. BOSKIN. Mr. Miller, if I might say a word about this, since I am involved, along with Deputy Secretary Eagleburger and Robson in coordinating our assistance, technical, intellectual and financial, to Eastern Europe. The funds in the Seed Act were carefully thought out to complement and encourage the reforms.

The Poles in particular, who were to receive over the next three years the bulk of the funds, being a much bigger economy than Hungary, have undertaken some major reforms. They passed about 21 major changes in law, including those two, to encourage private property, and allow for bankruptcy in state-owned enterprises that are failing.

They have adopted an ambitious reform proposal, $200 million of the seed funds were our lead contribution to stabilization funds which allowed them, in consultation with their—as Director Darman said, the multinational development banks, the IMF in particular in this case, to move to a convertible system.

They have not had to draw on that yet. So I think what Director Darman was getting at is the pace of political and economic reform differs from country to country. They have a relation to one another, and I think our position has been that we want to encourage this, but we don't want to have our support or that, indeed, of our

allies decrease the incentive these people have to move to market-oriented reforms and to pluralistic societies themselves.

Mr. MILLER. In another area, the budget assumed a reduction in the capital gains rate would generate some $4.9 million in new revenues for 1991. More people working, more people paying taxes. My question is, if the capital gains tax rate reduction does not become a reality, where in the budget would you make an adjustment to meet the Gramm-Rudman deficit targets?

Mr. DARMAN. Well, you could excuse us if we wouldn't give up on capital gains quite this early, I hope.

Mr. MILLER. Understandable.

Mr. DARMAN. I hope there is a good chance that we will in fact get it. But I would just note that last year, when we proposed capital gains and we proposed it in a way that was going to produce about the same amount of revenue, about $4.5 billion, we didn't get it. We did manage to find all kinds of little odds and ends, nowhere near as desirable as capital gains, but we did find odds and ends in the Ways and Means and Finance Committee to make up the difference.

I guess it would depend on whether we had a budget resolution and a reconciliation instruction, if we did go to Ways and Means and told them to produce that amount in extra receipts, and they didn't want to do it in capital gains, I feel sure that they would find other ways to produce the receipts.

I am not sure that we would agree with them now. I would hope that we could find some agreement there. I would hope first and foremost that we could get capital gains.

Secretary BRADY. I would add that Representative Archer is introducing the President's savings bill today, which includes capital gains.

Mr. MILLER. Thank you, gentlemen.

Chairman WHITTEN. At this time, I yield to Mr. Regula of Ohio. He is a ranking Republican on the Interior and Related Agencies Subcommittee and also serves on Commerce-Justice Subcommittees. May I say that he, too, was part of the Norwegian group, and if not a direct descendant, a wonderful citizen of the same mind.

Mr. REGULA. Thank you, Mr. Chairman.

Mr. Boskin, on page 2, you say that every recession has been preceded by inflation since World War II. On page 3, you talk about monetary policy as an essential element to team with the fiscal. Do you endorse the Federal Reserve's efforts to reduce inflation and possibly to zero at some prospective time, even though it might cause some upward movement in interest rates?

Mr. BOSKIN. We generally endorse the notion that containing inflation is necessary to prevent future imbalances or monetary tightening that would lead to recession. We endorse the notion that gradually, over time, with credible fiscal policy, as Secretary Brady indicated, giving the Feds some elbow room, taking pressure off by a deficit reduction and reducing the debt after 1993, will take some pressure off of inflation and interest rates.

I personally do not believe that it is desirable to single out one goal of macro-economic policy and abandon all the other goals, such as higher employment, production and so on that are enunciated in the Act.

I think we need to use all of our weapons, fiscal policy, monetary policy, to achieve a balanced set of objectives, of which low, steady inflation is one.

Mr. REGULA. Thank you.

Mr. Darman, when I go to the bank and they want a financial statement, they want to know what I have co-signed as well as what I may have signed directly. You haven't mentioned anything, at least not while I have been here, on off-budget obligations of the United States Government.

Is this a significant concern? I would be interested in what the total exposure is as a total government what we have, in effect, co-signed, and what the trend is and what it might cost us in fiscal year 1991 to make good on the student loans that are not paid, or farm loans, et cetera?

Mr. DARMAN. Well, the cost of all of that is estimated, and is in the budget, and shows up on-budget. The cost of anything that you have to make good on. We do have for the first time in the budget, as you may have noticed, a rather lengthy set of discussions of pretty much the whole range of unfunded liabilities and insurance obligations.

There is a table in there that shows that the face value of all of those is something like $5.8 trillion, which can be a scary number if you think that you are going to have to pay a substantial portion of it. We don't think that you are going to have to pay a substantial portion. We have a breakout in there that tries to show in each of the basic categories about how much and over an extended period of time.

I would simply refer you to the couple of sections in the budget that deal with that explicitly.

Mr. REGULA. A second question: You, of course, have $500 million additional in Head Start and education. But in reality, that program is part of education in the real sense. I wonder if you would examine—have examined whether, or not as we commit more resources, this should take on a greater involvement and direction as opposed to being part of the "war on poverty" where it originally started?

Mr. DARMAN. Well, I think, first of all, you are right. Head Start is not either in our education budget totally or in the Department of Education for that matter. Nor is it administered through the normal public education system.

A couple of comments about that. One of the reasons is that Head Start is intended, as you know, for needy children in order to get them ready for school. The notion is that one needs a comprehensive set of circumstances, not just educational readiness, but health and nutrition and other services, sometimes community services, that together can take children age 3 to 5 and get them into a position where, from a variety of standpoints, they are "ready to learn."

My own feeling is that because the nature of the service extends well beyond what the normal mission of a public school is, it is better not to have that done through the conventional school system.

I have a second reason which is more in the nature of a philosophical bias or personal bias; that is, I think, our system needs

more variety, more pluralism, more range of choice, more experimentation.

Our public education system has not been doing as well as it should have been doing. To simply say that because we now care about children at an earlier age, we should load them into this system that isn't doing what it should do for the people who are already there, seems to me to be questionable.

Mr. REGULA. Well, you would have to presuppose in that comment that the present technique is working effectively. I think you want to examine that one.

Mr. DARMAN. I think the evidence on Head Start, which has been very much examined, is that it has a favorable effect on certain cognitive test scores and others for about a year and half to three years, unless it is followed by a continuing compensatory education program.

So, you do get a favorable effect, but it isn't sustained unless you also have continuing investment of some kind, which is part of the reason we have also put more money into Chapter 1.

Mr. REGULA. Chapter 1 is a natural follow-up. Thank you. Mr. Brady, what is the impact of the fact that in the industrialized nations now the interest rates seem to be going up? I am thinking particularly of Europe. Isn't that going to drive interest rates up contrary to what you are saying in your statement prospectively.

The money is fungible and it will flow. I am curious as to what you think that impact will be on interest rates here. I believe that the latest sale of T-bills shows some rising rates and yet this budget is predicated on rates going down.

Secretary BRADY. Well, I think the T-bill end of the market, which is the short end is more affected by what the Federal Reserve does. In the long end of the market you are quite correct we have had an increase of some 30 or 40 basis points in the last month.

I would point out that that increase has been after a lowering of interest rates in the long run, at the long end, of some 100 basis points during the last year. But in the last month or so it has been adverse.

Mr. REGULA. What percent of our debt, i.e., the government's debt is held offshore?

Secretary BRADY. I believe the total, I can give you the figure for securities held offshore. I believe it is about 15 percent. The debt figure a few years ago of 17 percent is the highest it has ever been in recent history. It is about 14 percent now, I believe.

Mr. REGULA. The cost of capital is a serious problem. I like the long-term proposal in the capital gains. I would be interested in your reaction to coupling that with indexing. On capital gains the longer you hold the security or the property, the better the rate.

I would be interested in how you would react to indexing as a companion measure.

Secretary BRADY. Indexing is something that has been mentioned over the years. It is part of various capital gains proposals. We have not included it in the bill that was sent up by the President yesterday. It is enormously complicated. You get into all sorts of complications when you start talking about dividend reinvestment programs.

IRS has had a strong bias, which I think is based on some experience, that it is a very, very complicated kind of a program to administer. In addition to that it is expensive.

Mr. REGULA. My last question: I think capital investment is a vital necessity here. I read the other day that for the first time Japan has a greater dollar amount of capital investment than the United States.

Given the fact that our population is double, that makes me uneasy looking into the next century or even the balance of this decade. Have you thought anything about proposing some change in depreciation, particularly accelerating it in order to encourage capital investment in the industrial economy?

Secretary BRADY. Well, our first attempt to deal with the abysmally low savings rate that we have in this country is in trying to create incentive to save at the personal level, and, of course, the family savings plan, which is being introduced, which I described earlier this morning, is based to some extent on the success that the Japanese have had over the years in their savings program where they have generated an enormous amount of money by giving the public a chance to save in understandable comprehensive programs that don't go on for too long.

What our initial attempt to deal with that problem is, is through the family savings plan.

Mr. REGULA. Wouldn't that accelerated program of depreciation encourage modernization of the technological base of our industry?

Secretary BRADY. I think it would help some. I am not sure that the corporations taken as a whole don't have enough liquidity at this period of time to have some excess cash. If you give them a tax break by increasing depreciation schedules, it may have some effect on it.

Mr. REGULA. Mr. Darman, you have money in there for Panama. Obviously, we have committed money to Panama. Why don't we get greater support from our allies since Japan, for example, and some of the other countries use the canal to a greater degree than we do?

In the final analysis, even though we said we were there to get Noriega, under our treaty we have a responsibility to maintain the security of the canal. We are going to pay the bill and they are going to use the canal.

Secretary BRADY. If I could, before Director Darman addresses that program, we are supportive of the $500 million that we are suggesting be given in aid to Panama is for dealing with the arrears problem that they have built up during the period that General Noriega has stayed in Panama.

We are planning to go out and use our initial contribution to that program as a way to try and engender additional funds from other countries. We have done that before certainly in the case of Mexico where we have a multilateral program to help that country.

We hope to be able to get some others in Panama as well.

Mr. REGULA. Thank you.

Chairman WHITTEN. The Chair recognizes the gentleman from Arkansas, the ranking member of the Subcommittee on Commerce,

Justice, State, and Judiciary. He also serves on the Military Construction and the Post Office Subcommittees.

Mr. ALEXANDER. Thank you very much, Mr. Chairman, and thank you gentlemen, for the colossal effort that you have made in presenting this document to us for our bed-time reading. I confess that I have not read it all, but I have reviewed it sufficiently to ask a couple of questions.

It looks like I am going to have time for a couple anyway. I notice that you use the traditional method of presenting the budget in a pie-shaped diagram, which reflect percentage shares of spending. That is very helpful and it assists us in helping us determine where the money is going and where the national priorities are.

I observe there is a striking similarity between the percentage shares of spending of the Bush administration and the percentage shares of spending over the eight-year period of the Reagan administration.

I would like to just review, if I could, those similarities because I have a couple of questions that will follow. In grouping spending in five categories I see that during the period of the Reagan administration we spent approximately 34 percent of our total outlays on trust fund spending.

Now that is about the same as you project in your Bush budget. I observe that national defense, except for retirement, you spent in the last year 28 percent of the outlays for military defense. That increased from about 25 percent in 1980 to roughly 28 percent in 1989.

In other words, trust fund spending remained relatively constant during the whole eight years; the national defense spending increased a little bit from 25 to 28; entitlement spending, excluding spending from the trust funds, increased from 11 percent of total outlays in 1980 to 12 percent in 1981; but the interest on the debt increased from 10 percent to more than 14 percent of spending. In other words, the percentage share of total spending devoted to payment of interest on the debt increased about 50 percent.

It seems that we pay for that mostly by borrowing from non-military services. That is to say that non-military services or domestic discretionary spending declined during the Reagan years from approximately 21 percent of our total percentage share of spending, down to 11 percent.

Therefore we paid for the—about 50 percent increase in interest on the debt by reducing the non-military services by about 50 percent.

Have you made that same observation, Mr. Darman?

Mr. DARMAN. No.

Mr. ALEXANDER. I have it here for you. I have done an analysis of the period of years.

Mr. DARMAN. No, I have the same data. It is just the very last conclusion.

Mr. ALEXANDER. What would be your conclusion based upon the same data?

Mr. DARMAN. It is really a question of, I don't need to slow you down on this one.

Mr. ALEXANDER. I think you would probably reach the same conclusion. I will enjoy the question more than you will the conclusion.

Mr. DARMAN. Oh, boy, good.

Mr. ALEXANDER. My question is assuming the continuation of the trend during the Bush administration that began with the Reagan administration, and you, of course, have been a part of both, the citizens should expect a continued reduction in non-military services.

And my question is how long do you think that it will take you to reduce non-military services by another 50 percent if you continue the same trend? Do you think you could do it in four years or will it take you eight?

Mr. DARMAN. I don't have the answer, but the answer is mathematically calculable. If you consider the same trend you must have already done it.

Mr. ALEXANDER. I have done it for you. I will present it to you.

Mr. DARMAN. Okay.

Mr. ALEXANDER. One other question. What we are saying to the American people is that they should anticipate, based upon your set of priorities, a reduction in non-military services at about the same rate as the Reagan administration, which would reduce present level non-military services by about another 50 percent in a period of less than eight years.

That is the conclusion we would reach. The other question I have for you and I have to go vote, and I know you are glad of it, has to do with the question that was asked by the gentleman from North Carolina earlier on trust fund borrowing from Social Security Trust Funds.

I believe you presented the figure of $492 billion. Did that include borrowing from the other trust funds as well? That is to say, trust funds from medicare——

Mr. DARMAN. No, that was just OASDI.

Mr. ALEXANDER. Would you present to me in response to the question the borrowing from the Federal Government from all of the trust funds, OASDI, medicare——

Mr. DARMAN. Right, we have a table in here.

Mr. ALEXANDER [continuing]. Unemployment compensation, military retirement, railroad retirement, highway trust funds, airports and highways?

Mr. DARMAN. Yes, we have a table in here.

Mr. ALEXANDER. What does it reflect in numbers?

Mr. DARMAN. May I make one comment on your previous point?

Mr. ALEXANDER. Sure.

Mr. DARMAN. You took—if I understood you correctly, you took a trend line from the Reagan years, noted a certain similarity in the Bush initial budget and then said let's assume an extrapolation of the Reagan trend. But the budget doesn't do that, I would note for the record. If you look at, as I suspect you were, at the tables on page A-303.

Mr. ALEXANDER. I was looking at your percentage of the pie on page 2.

Mr. DARMAN. All of the math is done into the outyears if you turn to A-303. You will see some remarkable changes so that the

extrapolation that you have there is not consistent with what we are actually proposing. For example, for national defense, it goes from about 24.8 percent of outlays in 1990 and moves down to 21.6 in 1995. By 1995 I believe it will be the lowest it has been as a share of total outlays in 50 years. So that is a significant change.

[The information follows:]

COMPOSITION OF OUTLAYS IN PERCENTAGE TERMS: 1971 - 1995

Table 6.2—COMPOSITION OF OUTLAYS IN PERCENTAGE TERMS: 1971–1995

Category	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	1980	1981	1982
As percentages of GNP													
Total outlays	19.9%	20.0%	19.2%	18.8%	21.8%	21.9%	21.4%	21.2%	21.1%	20.8%	22.1%	22.7%	23.6%
National defense [1]	7.5	6.9	6.0	5.6	5.7	5.3	5.0	5.0	4.8	4.8	5.0	5.3	5.9
Nondefense:													
Payments for individuals	7.6	8.1	8.2	8.5	10.1	10.6	10.1	10.2	9.7	9.5	10.4	10.8	11.4
Direct payments [2]	(6.6)	(6.9)	(7.1)	(7.5)	(9.0)	(9.5)	(9.0)	(9.0)	(8.6)	(8.4)	(9.2)	(9.6)	(10.2)
Grants to State and local governments	(1.0)	(1.2)	(1.1)	(1.0)	(1.1)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)
All other grants	1.7	1.8	2.2	2.0	2.2	2.3	2.4	2.4	2.5	2.3	2.2	1.9	1.6
Net interest [3]	1.4	1.3	1.4	1.5	1.5	1.6	1.5	1.5	1.6	1.7	2.0	2.3	2.7
All other [3]	2.7	2.8	2.5	2.6	3.2	3.0	3.3	2.8	3.2	3.0	3.3	3.3	3.8
Undistributed offsetting receipts [3]	−1.0	−.8	−1.0	−1.2	−.9	−.8	−.9	−.8	−.7	−.7	−.7	−.9	−.8
Total nondefense	12.4	13.1	13.2	13.4	16.1	16.6	16.4	16.1	16.3	15.9	17.1	17.4	17.9
Addendum: GNP ($ billions)	1,055.9	1,158.1	1,281.4	1,416.5	1,522.5	1,698.2	448.7	1,933.0	2,171.8	2,447.8	2,670.6	2,988.4	3,138.1
As percentages of outlays													
Total outlays	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
National defense [1]	37.5	34.3	31.2	29.5	26.0	24.1	23.2	23.8	22.8	23.1	22.7	23.2	24.9
Nondefense:													
Payments for individuals	38.3	40.3	42.5	44.8	46.2	48.5	47.3	48.0	48.0	46.3	47.0	47.7	47.8
Direct payments [2]	(33.3)	(34.3)	(37.0)	(39.7)	(41.2)	(43.7)	(42.1)	(42.6)	(40.7)	(40.9)	(41.6)	(42.2)	(42.8)
Grants to State and local governments	(4.9)	(6.0)	(5.6)	(5.4)	(4.9)	(5.3)	(5.2)	(5.4)	(5.3)	(5.3)	(5.4)	(5.4)	(5.1)
All other grants	8.4	8.9	11.4	10.7	10.0	10.6	11.4	11.3	11.7	11.1	10.1	8.5	6.7
Net interest [3]	7.1	6.7	7.1	8.0	7.0	7.2	7.2	7.3	7.7	8.3	8.9	10.1	11.4
All other [3]	13.5	13.9	13.2	13.5	14.9	13.5	15.3	13.3	15.2	14.5	14.0	14.6	12.7
Undistributed offsetting receipts [3]	−4.8	−4.2	−5.5	−6.2	−4.1	−3.9	−4.4	−3.6	−3.4	−3.5	−3.4	−4.1	−3.5
Total nondefense	62.5	65.7	68.8	70.5	74.0	75.9	76.8	76.2	77.2	76.9	77.3	76.8	75.1

See footnotes at end of table.

Table 6.2—COMPOSITION OF OUTLAYS IN PERCENTAGE TERMS: 1971–1995—Continued

Category	1983	1984	1985	1986	1987	1988	1989	1990 estimate	1991 estimate	1992 estimate	1993 estimate	1994 estimate	1995 estimate
As percentages of GNP													
Total outlays	24.3%	23.1%	23.9%	23.7%	22.7%	22.2%	22.2%	21.8%	20.9%	20.1%	19.5%	19.4%	19.3%
National defense [1]	6.3	6.2	6.4	6.5	6.4	6.1	5.9	5.6	5.1	4.9	4.6	4.4	4.2
Nondefense:													
Payments for individuals	11.9	10.8	10.8	10.7	10.6	10.4	10.4	10.5	10.4	10.3	10.3	10.2	10.2
Direct payments [2]	(10.6)	(9.6)	(9.6)	(9.5)	(9.3)	(9.1)	(9.1)	(9.2)	(9.0)	(8.9)	(8.9)	(8.9)	(8.8)
Grants to State and local governments	(1.3)	(1.2)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
All other grants	1.5	1.4	1.5	1.4	1.2	1.1	1.1	1.1	1.1	1.0	0.9	0.9	0.8
Net interest [3]	2.7	3.0	3.3	3.3	3.1	3.2	3.3	3.2	2.9	2.6	2.3	2.0	1.8
All other [3]	2.9	2.5	2.9	2.5	2.2	2.2	2.3	2.3	2.2	2.0	2.1	2.5	3.0
Undistributed offsetting receipts [3]	−1.0	−.9	−.8	−.8	−.8	−.8	−.7	−.7	−.7	−.7	−.7	−.6	−.6
Total nondefense	18.0	16.9	17.5	17.1	16.3	16.1	16.3	16.4	15.8	15.2	14.9	15.0	15.1
Addendum: GNP ($ billions)	3,321.9	3,687.7	3,952.4	4,180.9	4,430.2	4,792.2	5,151.3	5,488.9	5,892.4	6,329.0	6,770.0	7,213.6	7,659.2
As percentages of outlays													
Total outlays	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
National defense [1]	26.0	26.7	26.7	27.6	28.1	27.3	26.6	24.8	24.6	24.3	23.6	22.6	21.6
Nondefense:													
Payments for individuals	48.9	46.9	45.0	45.4	46.8	46.9	46.7	48.3	49.5	51.2	52.5	52.8	53.0
Direct payments [2]	(43.8)	(41.7)	(39.9)	(40.1)	(41.1)	(41.1)	(41.0)	(42.0)	(42.9)	(44.3)	(45.5)	(45.7)	(45.8)
Grants to State and local governments	(5.2)	(5.2)	(5.1)	(5.3)	(5.6)	(5.7)	(5.8)	(6.2)	(6.5)	(6.8)	(7.0)	(7.1)	(7.2)
All other grants	6.3	6.2	6.1	6.0	5.2	5.1	4.9	4.9	5.1	4.9	4.7	4.5	4.2
Net interest [3]	11.1	13.0	13.7	13.7	13.8	14.3	14.8	14.7	14.0	12.9	11.9	10.6	9.2
All other [3]	11.9	10.8	12.0	10.6	9.8	10.0	10.3	10.4	10.4	10.2	10.8	12.9	15.3
Undistributed offsetting receipts [3]	−4.2	−3.8	−3.5	−3.3	−3.6	−3.5	−3.3	−3.0	−3.5	−3.4	−3.5	−3.3	−3.4
Total nondefense	74.0	73.3	73.3	72.4	71.9	72.7	73.4	75.2	75.4	75.7	76.4	77.4	78.4

[1] Includes grants to State and local governments.
[2] Includes some off-budget amounts; most of the off-budget amounts are direct payments for individuals (social security benefits).

Mr. ALEXANDER. Well, that would necessarily presume that I would agree with your presumptions.

Mr. DARMAN. There is another interesting change. The reason I disagreed with the tail end of your conclusion on question one or observation one is this: If you look at entitlements or mandatory programs, the largest portion of which is payment to individuals plus interest, I think that is the most compelling and interesting thing in the budget.

How much that has grown to over 60 percent, if you look not just in the Reagan period, of course, that has been a trend that has been coming since the early 1960's and is fairly consistent over the whole period.

Mr. ALEXANDER. All of this is subject to debate. We are paying for the increased payment and interest on the debt by decreasing the non-military services which, of course, includes education, natural resources, law enforcement, public works, transportation, housing and agriculture. That is the point I wish to make.

Mr. DARMAN. The point I was trying to make is one way to look at it is the way I believe you were. Another way to look at it is these programs, the latter set you identified, at least most of them which could be viewed as discretionary investment programs——

Mr. ALEXANDER. They are.

Mr. DARMAN. The farm ones are mixed but the rest are, that those are being squeezed and now the question is why. All I was trying to assert is I agree with you that interest has gotten very, very large. It would be nice to get that back down to its—more like its historic levels but it is also that payments to individuals have grown so large, almost 50 percent of the whole budget.

Mr. ALEXANDER. I wish I could stay here and discuss it further with you, but I have to go vote. Thank you very much.

Chairman WHITTEN. The Chair recesses until the Members get back. They have had to go vote, including me.

[Recess.]

Mr. NATCHER [presiding]. At this time I recognize the gentlelady from Nebraska, Mrs. Smith, who is the Ranking Republican Member on the Subcommittee on Agriculture and who also serves on the Energy and Water Subcommittee. Mrs. Smith, you are recognized.

Mrs. SMITH of Nebraska. Thank you. Welcome, Mr. Brady, Mr. Darman, Mr. Boskin. First, I have a couple of agriculture questions for you, Mr. Darman.

I know that the Administration's budget includes a recommendation to eliminate the Federal Crop Insurance Corporation (FCIC), and it reduces FCIC funding from $1.3 billion in FY 90 down to 171 million for FY 91 as well, Secretary Yeutter is recommending that we do away with the FCIC in favor of a Federal Disaster Program.

I wonder if the Administration has studied the comparative costs. I have up here Joseph Glauber's report from the Economic Research Service that says crop insurance is far more cost-effective than disaster insurance. You know, in my state 68 percent of the farmers carry federal crop insurance, according to the American Association of Crop Insurers.

Nationally, 51 percent of the farmers carry it.

If Congress were to substantially modify the FCIC Program, increase its participation and create a more cost-effective program, would the administration support the FCIC instead of turning to disaster programs?

Mr. DARMAN. As a general matter, Mrs. Smith, I think the answer is we would very much be interested in working with you and other Members of the Congress on a reformed crop insurance program. What we are basically saying is this: the crop insurance could be the more cost-effective way, I agree with you. But that the way that we are doing it now, we are essentially paying three times, not quite three times over, but we pay under three headings.

First, we subsidize the premiums to try to get people to participate. Then if any year an insurance company has a loss, we make the insurance company whole on the same insurance, and then if there is a disaster in any year, we come around and pass a disaster bill who gives money to all those who didn't have the insurance and gives a portion of it who did have insurance.

So we are paying three times, and what we would like to do is say if the Congress thinks that the better way to do it is with a reformed crop insurance program, let's do that. But pending that, at least stimulate some debate on the subject so we don't have to pay for the same thing three times. We are saying if the Congress is going to pass a disaster bill anyhow every year and a rather generous one, in our judgment, not as carefully targeted as it could be, then we would rather say we are better off forgetting crop insurance and just working on figuring out how we can have a sensible disaster funding mechanism.

Mrs. SMITH of Nebraska. Well, we are aware that crop insurance is often quite political, and it isn't practical to have the two methods, but I like that answer. Now the administration's budget also calls for a billion and a half dollars reduction in the commodity program, but there is no specifics regarding the program cut.

Will Congress be getting specifics as to what commodities the administration recommends that we delete this from or is the administration recommending lower loan rates or lower target prices?

Mr. DARMAN. Well, Mrs. Smith, as you probably noted in our budget, we mentioned four different headings under which we think it would be useful to try to get savings, and they are familiar to you. They are payment limits of two different kinds. That is two headings: acreage limits and target price changes. And what we are saying is that we believe that there are several different combinations of those which could produce the budgetary savings, and we would like to work with the Congress to find jointly what we think is the best way.

I will tell you that that is partly for policy reasons and partly also for political reasons, and it wouldn't surprise you that we feel if we came out directly and said do it all with target prices or do it all with payment limits or whatever we were to say, whatever we say would be shot down and that we have got a better chance of achieving something balanced and responsible if we let Secretary Yeutter, who has such high credibility in the agricultural community and with you and work with you and your colleagues to find the best mix.

Mrs. SMITH of Nebraska. Well, I agree that we should all work together on it.

The administration's budget is true to the President's promise of no new taxes, but I am interested in under what circumstances you would consider a tax increase.

I am concerned that I am hearing gas tax again and again, and I know that those who promote a gas tax argue that it is easy and painless. However, my research shows that is not the case. For each one cent of gas tax increase, you put a drag on the economy to the tune of a billion dollars.

I come from a very agricultural area where we use more than twice as much gas per person as do people in New York City. I know that it is very regressive and very hard on poor people. So my question is, whether the administration will continue to oppose a gas tax if it were part of the package that included a cut in the capital gains tax, for example, which you want, or if the revenues became so short that it was needed to replace revenues lost by, say, a cut in the payroll taxes.

Secretary BRADY. Mrs. Smith, I think the American people's feeling that they have enough of a tax burden is based on the fact that they feel that we ought to try and make the Government more efficient and try to fashion our expenditures within the revenues that they have given us, and of course the administration is putting forward this budget to work with Congress.

I know there are many in Congress that feel the same way, but I think everybody recognizes that it is the American people's feelings that they have given us enough revenues to work with, and we just ought to be better at deciding where they ought to go.

Mrs. SMITH of Nebraska. You didn't tell me whether he would continue to oppose a gas tax.

Secretary BRADY. Well, I think it is pretty clear the President's feeling on taxes is that he doesn't at this time or for the foreseeable future feel that a tax increase is necessary.

Mrs. SMITH of Nebraska. Thank you, Mr. Chairman.

Mr. NATCHER. At this time I will recognize the distinguished gentlelady from Louisiana, Mrs. Boggs.

Mrs. BOGGS. Thank you, Mr. Chairman.

Mr. Secretary, Mr. Chairman, Mr. Director, it is a great pleasure to have you here. This is a wonderful opportunity to hear you give your testimony. What enormous responsibilities rest on your capable shoulders. I know the excitement that you must be feeling about the new situations that are developing throughout the world and the response of the United States to them. These events will have an effect upon our own economics and our budgetary positions. I look forward to working with you as the months bring in that type of endeavor.

However, I would like to get down to a few sort of nitty-gritty questions. They are policy questions, but they are more specific. The Department of Housing and Urban Development is requesting $7.7 billion for expiring section 8 subsidy contract renewals.

Of course, that is a big concern in most of the large cities of the country. It is my understanding that, according to the Department's five-year projections, fiscal 1991 is the high water mark in the amount of dollars that will be needed for the renewals.

However, the costs for proposed contract renewals are based on the assumptions that expiring contracts will be renewed using five-year contracts. Can we expect a large budget request for renewals every five years, and won't this be really magnified by the expiration of 15 and 20-year contracts in fiscal 1996?

Mr. DARMAN. Mrs. Boggs, I think that that really just goes to the question of what the budget authority is going to be. The outlays would be the same whether you have five-year contracts or 15-year contracts or 25-year contracts. For a variety of reasons, we have preferred to move toward the shorter end. But the outlays would be the same either way.

It is just a question of every now and then you have got a big pump-up in the budget authority, but sure you are right. If you switch to five years and you then have the renewal problem after five years, it shows up again. If it is 15 or 20 it doesn't show up until then. But by the same token it is 20 instead of 5. It is four times as big up front.

Mrs. BOGGS. That's right. At the end of this five-year period that we would be commencing this fiscal year would coincide with the 1996 fiscal year where you have so many of the 15 and 20-year contracts coming due.

Mr. DARMAN. But it doesn't affect the cash needs for that year. It just affects the way you score the long-term obligation. We think for programmatic reasons we would rather have the shorter terms.

Mrs. BOGGS. Thank you.

WETLANDS PROTECTION

The budget proposes an increase of 24 percent or $88 million for wetlands research and protection. The table included in the budget indicates in a general manner where the total of the $460 million is going.

Would you please provide more specific information on how these funds are to be spent, identifying accounts for the record of what portion of these represent new initiatives and what portion is simply continuation of existing efforts of perhaps the deletion or reduction of existing programs?

For instance, there is $100 million included as part of the America the Beautiful program at the Department of the Interior. What is really disturbing is that we do have that, and yet the budget is proposing cuts in established programs that promote protection and sound management of forests, yet the Bush budget calls for $48 million, a 46-percent cut in cooperative forestry programs which help protect trees against fire, pests, and other threats.

In other words, we are doing away with some of the forests support programs while we are increasing the reforestation. Louisiana, as you know, contains 40 percent of the Nation's coastal wetlands, and we are losing this resource at a phenomenal rate due to erosion and subsidence caused by any number of factors.

It is going to take more than a vigorous regulatory program to preserve and rebuild these wetlands. It is going to take incentives to landowners and some structural solutions to address this problem in any meaningful manner.

In recent years, the Corps of Engineers has taken the lead in trying to develop some alternatives to deal with the situation. After a year of work, can you give us any insight into what the President's Wetlands Task Force may be developing in the way of recommendations?

Mr. DARMAN. Mrs. Boggs, I would rather provide a more complete response for the record, or to you independently if I could. I have seen an awful lot of paper on this subject that deals with exactly what you are talking about in terms of the line-by-line breakout and which programs are continued at what levels, and which ones aren't, and where they go and so on.

I don't have it in the top of my head or readily available, but I could get it for you quickly, and as to the work of the Wetlands Task Force, I am not familiar with what it is actually recommending at the moment. But I can easily get that for you.

Mrs. BOGGS. Thank you very much.

[The information follows:]

WETLAND FUNDING

In keeping with the President's goal of no net loss of wetlands and the establishment of the administration's Interagency Wetlands Task Force, the Budget proposes major increases for research, restoration and enhancement, protection, and conservation of the Nation's wetland resources.

GOVERNMENT-WIDE WETLAND FUNDING

DEPARTMENT OF THE INTERIOR

[In millions of dollars]

	1989 actual	1990 enacted	1991 proposed
Interior Wetlands Funding:			
BA	95	122	[1] 155
O	76	98	124

[1] Includes $100 million under America the Beautiful

WETLANDS FUNDING SUMMARY

[In millions of dollars]

	1989 actual	1990 enacted	1991 proposed
Interior:			
FWS	20	26	36
GS	2	2	3
BuRec	7	7	5
Land acquisition	65	86	109
Other Bureaus	1	1	2
Subtotal	95	122	155
Other Departments:			
USDA	49	83	97
EPA	9	12	21
Army	109	130	159
NOAA	19	25	28
Subtotal	186	250	305
Total	281	372	460

Fish and Wildlife Service (FWS):

FWS will continue and enhance wetlands restoration authorized by the 1985 Farm Bill. To date, FWS has restored some 36,000 acres of wetlands on agricultural lands. FWS has set a goal of restoring an additional 13,000 in 1991.

In addition, FWS and the Farmers Home Administration (FmHA) will shortly sign an MOA concerning the disposition of agricultural lands in Federal inventory where prior owners and operators have residual repurchase rights. This agreement balances the legal rights of prior owners with the need to protect wetlands, and should increase wetlands conservation and restoration.

FWS will speed up its National Wetlands Inventory. Increased funding for this program will result in accurate documentation of regional wetlands changes. In addition, baseline data will be developed on coastal wetlands, expecially in Louisiana.

Additional funding is provided to accelerate the acquisition of water rights from willing sellers to help restore the important Stillwater National Wildlife Refuge in Nevada.

Additional funding is proposed for high priority wetlands land acquisition including $25 million to implement the North American Waterfowl Management Plan, $30 million from the Migratory Bird Conservation Fund to preserve and protect migratory bird resources (funded primarily through the sale of duck stamps), and $53 million from the Land and Water Conservation Fund.

Geological Survey (GS):

GS will address the Administration's goal of increasing the quality and quantity of the Nation's wetland resources through research in the Coastal Erosion and Wetland Processes program. Research will focus on processes affecting the occurrence, evolution, and maintenance of wetlands, and on the internal geochemical processes within wetlands to provide a basis for future comparsion.

Bureau of Reclamation (BuRec):

The BuRec wetlands program focuses primarily on fish and wildlife habitat values. Various studies serve multipurpose needs, which include improved environments for fish and wildlife. Funding is included for the Central Valley Project, San Luis Unit, Suisun March Project in California for construction of facilities for the protection and preservation of this important marsh land. In addition BuRec will focus on the design, construction, and management of natural, restored, and artificially designed fish and wildlife habitats.

Other Departments:

USDA:

The USDA wetland program focuses primarily on protecting, enhancing, and restoring wetland resources. Additional funding is proposed for the Conservation Reserve Program and Water Bank Program. Under both programs eligible farmers can enter into 10-year contracts, to preserve the wetland resource. In return, the farmer receives an annual rental payment.

EPA:

EPA will perform research to develop methods to better assess wetlands functions and values as well as ways to effectively restore and create wetlands. The Budget continues support for increased funding for enforcement of existing wetlands protection regulations, and for developing programs with local governments to streamline wetlands regulation while still protecting valuable wetland areas.

Army Corps of Engineers:

In the area of wetlands protection, preservation, and conservation, funding is included for several Corps of Engineers new and ongoing activities. These include: (1) $26 million has been requested for land acquisition that relate to wetlands including $20 million to initiate implementation of the Tennessee Tombigbee Mitigation Plan; (2) the Budget contributes support for increased funding for enforcement of Section 404 of the Clean Water Act; and (3) significant funding, $46 million is requested to mitigate and protect wetlands that are affected by the construction of Corps water resources development projects.

NOAA:

NOAA's wetlands program revolve around the reauthorization of the Coastal Resource Management Improvement Act of 1990. The CZMA will provide for a program to protect, enhance, and conserve coastal wetland resources.

The President's Wetlands Task force is examining how best to implement the goal of no net loss of wetlands. At a minimum, the task force is expected to make recommendations for revising the Executive Order 11990, which directs Federal agencies to minimize wetland losses resulting from Federal actions.

The task force has undertaken background studies and briefings on how best to implement the no-net-loss goal, including a series of meetings around the country to solicit public comment on what should be an appropriate strategy for achieving the President's goal. Information gained through this process will be of major importance in determining the appropriate mix of regulatory and nonregulatory recommendations to the President. The task force is focusing on a number of key factors, including wetland losses related to agriculture, losses in Louisiana and Mississippi, and the unique nature of Alaskan wetlands. While the task force is not in a position to make recommendations at this time, it is proceeding in a timely manner, and should be able to offer a comprehensive mix of policy recommendations in the near future.

Mrs. BOGGS. The percentage of women and minorities in the mid-level and managerial grades of government service has increased over the past decade, but there remains a need for greater growth, particularly in the Senior Executive Service and grades 14 and 15. It is projected that 47 percent of the work force will be female by the year 2000.

What plans does the administration have to increase the presence of women and minorities in the managerial and professional ranks of government service? And can you point to any new initiatives in this budget?

Mr. DARMAN. Mrs. Boggs——

Secretary BRADY. I will speak for the Treasury Department, Mrs. Boggs. We could provide you some figures. We have three women at Presidential level in the top offices of the Treasury, Carol Hallett is head of the Customs Service, which is the first time there has ever been a woman head of that particular service.

I don't know that our levels approach the 46 percent that you have mentioned this morning, but it is in response to President Bush's strong feelings in this regard that we have the good record that we do.

Mrs. BOGGS. Thank you. I thank you for your good report, but are there any new initiatives in the budget to increase the numbers?

Mr. DARMAN. I don't think there is a new initiative that shows up as a line item in the budget. Obviously, Connie Newman, as you know, is head of the Office of Personnel Management, and is herself a woman and is quite interested in making sure that the advancement of women and minorities continues to move favorably, and she has a number of particular programs, but I don't think they translate into a line item that I am familiar with in the budget.

I might just add a word, one brief word on that, which is that for our longer-term consideration here, which is partly because of the success in opening up the labor market to women and minorities. For some kinds of jobs it is actually becoming harder to attract women than it was before. This, of course, is true of people at the local level in education. It is a reflection of the flip side of a good thing, but it is true also even in places like OMB, where you are looking for highly qualified professional women who previously were excluded from large parts of the labor market, and were happy to come to a place like OMB.

Now, the good news is they have much better opportunities. The bad news is they pay a lot more money than we do.

Mrs. BOGGS. That is a very real problem, I recognize.

Mr. BOSKIN. Mrs. Boggs, if I might just add, happily, in the last couple of years, we have seen a convergence downward of female unemployment rates overall in the economy to the male unemployment rate. We have also seen in this time of rapid increases in female labor force participation not only that their unemployment rates now are down to the levels of male unemployment rates for the first time since World War II in the last few years, but also that a portion, but only a portion, of the pay gap has also been narrowed in the eighties; obviously, there is still a pay gap.

Mrs. BOGGS. Mrs. Newman, in Government Executive Magazine, wrote recently that a key question we should ask as we prepare this Nation's government for the 1990s is whether women and minorities should be satisfied with their progress in the Federal workplace, and with their opportunities for the future.

Then she goes on to cite the kind of advances that have been made and salutes the President for his top appointments, but then she concludes by saying there are many potential opportunities for women and minorities at all levels of the government, but those opportunities are real only to the extent that executives change their ways of doing business at various points along the career continuum.

I think that Ms. Newman has hit the nail on the head.

I was very interested, Mr. Darman, in your remarks about Head Start, I feel this sort of frustration about having some programs that I am extraordinarily interested in being increased in their budgetary activities and others that seem to be in the same vein are decreased at the same time.

I have a proprietary interest in Head Start. I was a volunteer chairman who helped start the Head Start program when it was an anti-poverty program. You are right, it did include all of the extra activities that prepared a child and a family with its widening horizons program for school. Of course, it was later taken over by what was then the Office of Education, and some of those auxiliary props were really taken away from the program. You are very correct in expressing the desire to have them returned in full force.

You are also correct in stating that Chapter 1 is a natural continuum of the program. We are very fortunate because we have $500 million more for Head Start in the budget and $246 million more for Chapter 1.

There are some infant mortality initiatives in the budget, but you also are decreasing the WIC program. We certainly know that the head start that you get before Head Start has to be in good health, good nutrition, and that in infant mortality, the preventive care, particularly in the nutrition field, is what is so very important, especially to the teenaged mothers.

Would you tell me why you think that we can increase Head Start and Chapter 1 and infant mortality initiatives and spend less money on women and children?

Mr. DARMAN. We might have made a little mistake. I don't think we meant to cut WIC, and we are double-checking to see if we did. Last year, we increased WIC, even though people thought it was in

the so-called black box, we specifically said that it was going to be increased, and it was. We will just quickly double-check.

Are you looking at the actual page there? I am sorry to bore you.

Mrs. BOGGS. No, I am not. I just have a few notes that I took when someone was talking.

Mr. DARMAN. If you don't mind, we will double-check that, but I would be surprised—we might have decreased it relative to current services. I don't believe we decreased it relative to last year.

Mrs. BOGGS. I hope that you haven't. You know, the Select Committee on Children, Youth, and Families did some cost-effectiveness studies on several programs. We did them in 1983, and then we revisited the same programs in 1987. WIC was one of the programs that we discovered was very, very cost-effective. We had hoped we would put it in the safety net.

Mr. DARMAN. If you look at page—of the Budget, A511 WIC is increased by $100 million. I think maybe, if I might suggest what might have happened, someone might have given you an analysis based on the current services level. Let me just double-check there. If it is a cut at all relative to current services, it is tiny.

It looks to us as though it is about the same. It is an increase of over $100 million over last year for WIC. We are a kinder, gentler administration.

Mrs. BOGGS. Of course you are, and those little babies thank you.

Thank you so much, Mr. Chairman. Thank you, gentlemen.

Chairman WHITTEN [presiding]. Our colleague from Louisiana, Mrs. Boggs, is one of the outstanding Members of Congress. I am sorry I missed some of her questioning. She has had many successes in life and in Congress. One of the outstanding Members. She also lives where the water of 41 percent of this country flows by her door, so she does a marvelous job of looking after that.

We are not opposed to anything, except we realize we have to produce if we are going to get out of the situation we have. We can go along with many other things, but we must insist that we increase production so as to get ourselves back in condition.

EXPRESS APPRECIATION OF THE COMMITTEE

I am going to ask my friend, Bill Natcher, the ranking member, to take over here, but before I leave, I wish to say thank you for a very fine presentation. I don't know the solutions to a whole lot of the problems we face, but what we try to do here is to anticipate what is happening to us so that we may get ready to handle it as we have had to do sometimes in the past.

I wish to thank you personally.

Mr. DARMAN. Thank you, Mr. Chairman.

Mr. BOSKIN. Thank you, Mr. Chairman.

Mr. DARMAN. Look forward to working with you, Mr. Chairman.

Mr. NATCHER [presiding]. At this time, we will take a brief recess until Mr. Traxler appears. Just for two or three minutes, gentlemen.

Mr. Brady, we understand you have an appointment at 3:30. We thank you for coming. Any time you need to leave, you go ahead.

[Recess.]

Mr. NATCHER. The committee will now come to order.

At this time, I yield to the distinguished gentleman from Michigan, the chairman of the Subcommittee on Veterans, Housing and Urban Development and Independent Agencies, Mr. Traxler.

Mr. TRAXLER. Thank you, Mr. Chairman.

I would like to welcome our distinguished guests. Your patience and longevity at that table are appreciated. We are sorry the chairs are not softer. I don't have any lectures for you. I have some viewpoints. I also have a question, maybe two.

1991 BUDGET REQUEST

First, let me congratulate you, Mr. Darman, and by way of you, the President. I think the recommendations that came out of the President's budget for the VA, HUD, and Independent Agencies Subcommittee were just outstanding and excellent. I may have a little problem holding on to all of that in the 302(b) process, but it is the fairest and the most generous request overall that we have seen in 10 years. It will permit us to do the things that have been suggested in the President's budget with the various agencies. With some modifications and some help from other people, I think we are going to work out everything just fine.

LUNAR-MARS MISSION COST

There is one request question that I want to put to you regarding NASA. NASA, you will recall, did a 90-day study which I think was completed late last fall. It dealt with the question of Lunar-Mars, and portions of that have been made available and the subcommittee has portions of it.

Regretful to say, the staff has made a valiant effort both within the agency, the Space Council and people at OMB to get the cost of those studies. We are interested in that. We would appreciate your assistance in springing that loose. I don't want to file a Freedom of Information request, but I suppose that is always available. I don't know where I would get the money to pay for the printing, but we would work that out, I am sure. But I would appreciate your intervention in this matter, sort through whoever is deep-sixing it and do what you can to get that up to us.

We think that will be important and useful in our deliberations. What do you think? Do you think you will be able to do that?

Mr. DARMAN. I saw the report from NASA. I saw the full written report as it came to me, and I also saw Admiral Truly's presentation. I don't remember a cost analysis being part of it. They just had summary figures, but not an analysis.

The summary figures, I said that very day I made public, and you have got those. Those are totally unreliable. They are something like 400 to 800 billion dollars over a 30-year period.

Mr. TRAXLER. Well, of course, you know the Space Station started out at $6 or 8 billion, and we are 20-plus and climbing. So when you say they are totally unreliable, let me assure you, whatever the guesstimate is, it will be very unreliable on the down side.

Mr. DARMAN. Well, I am sure that you are right, but could I make one observation on that score? If there is a cost analysis, we don't have any reason not to share it with you.

Mr. TRAXLER. Good.

Mr. DARMAN. I just haven't seen it myself, and I wouldn't have confidence in it if I had seen it for the reasons that relate to the point I am about to make. As you know from looking at the report itself, the NASA report, it says we need breakthroughs in a whole lot of technological areas that it lists, and there is enormous technological uncertainty, and until you have settled some of those questions, you can't even begin rationally to price the whole program. That is point one.

Point two, some of us in the administration felt that that NASA report itself was very much biased towards what you might think of as the off-the-shelf approach to moon and Mars, that it didn't really seek highly divergent new technologies, and therefore, the Vice President and the Space Council brought in a panel of outside space people and indeed, the Vice President will be meeting with such a group again today, I believe it is a different group, but what he is trying to do and some of the rest of us are trying to do is to make sure that we don't prematurely close on a set of technologies that might be more expensive over the long term than if we were to preserve a wider range of technological options in this early couple of years.

From a budgeting standpoint, what that means is it would actually be cheaper the next few years because you don't start a buildup, you keep doing exploration of alternative technologies and paper studies and small-scale studies, and then only after those give you a lot more information do you pick what route you are going to go.

My own view is that you don't have any basis to be really able to price it for the long term until some decisions that haven't yet been made about the technologies are made.

BUDGET AGREEMENT

Mr. TRAXLER. For a moment, let's hypothesize here on events that could unfold that are very important, both to your agency and to this full committee, as well as to the Congress of the United States.

How do you see this whole budget scenario unfolding in the coming year? Are you going to do the deal of the century by the end of the year? Are we back in special session in early December? Are you going to be the grinch that killed Christmas? What do you see going on here, to coin a Pac Man phrase?

Mr. DARMAN. I don't know at the moment, I am not trying to duck, but I genuinely don't know, and I would hope to have a much clearer picture in a couple of weeks, when you and your colleagues have, A, been away and, B, come back. My feeling is that if I were to have jurisdiction by the first day of the House Budget Committee hearings, I would have said well, we will just sit back and wait for sequester and see what happens, but I expect the House Budget Committee to posture for the cameras, if you will pardon my saying that is what they did.

Mr. TRAXLER. You will never find that in this committee.

Mr. DARMAN. Well, this committee has really been very gracious and decent and respectful. Really, I might say, dramatically different.

Mr. TRAXLER. We appreciate our relationship with you. We don't always agree with you, but we appreciate the relationship.

Mr. DARMAN. But for any reason, I don't think one should judge very much by the early posturing. I think we sort of have to wait for people to settle down, learn what is really here.

For example, in this committee today, you know there actually have been a lot of positive statements about things that are in our budget, none of which got any attention on the first day. You have made some nice comments, Mrs. Boggs. Several other people have, and there are, in fact, some new proposals—this isn't just the same budget as was presented before, and it isn't a Cold War relic, either, or warmed-over Reagan or these various other things that were said on day one.

It has got some significant differences. I trust that will be appreciated more, as it is with a little bit of time. I think people's inflated notions of how big the Peace Dividend will be, that is coming into more realistic focus.

I am not saying we are exactly right, but I am saying people who thought they could solve the whole problem by just gutting defense are going to discover they don't actually want to do that, but it is only after the people in the political system up here get sort of a more settled-down view of where things are and what is really possible that they will be in a frame of mind to tell us how much they would like to negotiate with the administration or not.

We have said all along, we are prepared to sit down and negotiate and would like to, but obviously, if you were to have done it in the first couple of days, the negotiations would have blown up, to judge by the tenor in the first couple days, so we have to wait for things to settle down a little bit.

REBUILDING INFRASTRUCTURE

Mr. TRAXLER. Maybe we can further define the question here by giving you some parameters which you could work with, and perhaps hypothesize from those. My own judgment is that the Congress is prepared to move forward on more military cuts than what the President has talked about.

The probabilities are that those are going to involve some weapons systems that are currently on your list, but others that are not on the list. In addition to that, there is growing awareness that our defense of Western Europe is extremely costly to us. It also interferes with the rebuilding of this country's infrastructure, as the chairman suggested in his opening remarks, and I would like to say that I totally support those opening remarks.

I think our infrastructure is in terrible shape. We have got to begin to address that. Incidentally, in your private conversations with the President, if I could be so bold, I think he would be the most popular President in this century, bar none, if he were to grasp that concept of rebuilding this Nation's roads and highways, bridges, sewer and water facilities and even a few public buildings here and there. Regarding education, he is attacking our educational problems, but I am terribly concerned over the fact, for instance, as you well know, that at our graduate science level, our Ph.D. level, half of those graduates are foreigners.

We want to be the technological nation of the next century, but we are not going to have the woman—or manpower to do it. That is a grand opportunity for him. I hope he will seize it—not at a deficit expense, which troubles me as much as it does you—but rather by saying there is a logical and reasonable path that we can take by way of reducing our military presence overseas. Not here, not close bases here at great distress to many people, but rather say to our friends overseas, we have borne the burden so long that it has become an economic hardship for this Nation now, it is your turn to defend yourselves to the extent that you believe necessary. I suggest to you that those are going to be some of the parameters that we are going to be working in, a greater willingness on the part of the Congress on this point.

Now, I notice the President has the ability to get on the front of the parade, too, and that may be the result of where we are going to be next August or September. I think events are moving, there is a realization here, and an opportunity, I think, for some real leadership on your part, the President's part, in making some suggestions on some further reductions in those areas, one; and two, divide those reductions between the deficit and infrastructure reconstructing.

I haven't met anybody, Republican, Democrat, independent, that doesn't think it would be the greatest thing since we invented ice cream and apple pie. I am going to close with that point. I wish you well.

Mr. DARMAN. Could I make one quick comment? We would like to help protect your 302(b) allocation, too, and——

Mr. TRAXLER. Would you make that pledge, Bill?

Mr. DARMAN. But to be able to do that, I think we are all going to need just to return to a point I made very near the start of my own remarks, we are all going to need to help apply some pressure to those responsible for mandatory programs, because I think you will find that whatever the additional amount in defense cuts relative to the President's, that the Congress decides on, is still not going to be anywhere near enough to close the deficit gap in the way we are obliged to do, and some additional savings, some substantial additional savings are going to have to come out of the entitlement area, which is taking over this budget.

Mr. TRAXLER. Well, the entitlement areas are Social Security, medicare. What are some of the others? Quickly, can you tick them off for me?

Mr. DARMAN. Medicare, farm, Federal retirees, Federal employee benefits, those are the biggest dollar ones in our budget, of our budget proposals. There are minor ones, but we are not proposing to touch Social Security, but medicare is going to have to make a fair contribution, not in a way that hurts beneficiaries, but in a way that cuts back on the reimbursement of doctors, not all doctors, but doctors who are overutilizing, in our judgment, and hospitals, not all hospitals, not rural hospitals, but some of the higher-profit, the more profitable urban hospitals and suburban hospitals.

There is a billion and a half that can be taken out in the new farm bill we think without adversely affecting farm income. We think there is some substantial amount that can be done with the Federal employee benefits.

We think there is still—now that the Post Office is off-budget, which some have criticized, but the Post Office wanted to be free-standing. It has got its own revenue source. We think that there is reason to decrease the subsidy of the Postal Service and let it act more like a conventional, independent entity. There is quite a long laundry list of these that add up to many billions of dollars.

My only point is, every additional billion you get from them helps protect that 302(b) allocation a little bit more.

Mr. TRAXLER. It seems to me that you are just making a gray area for the deal of the century.

Mr. DARMAN. I would be happy to have a deal of the year rather than the whole century.

Mr. TRAXLER. What you are proposing goes beyond just this year. We are looking at putting in place a meaningful program. I am sure the people on the other side of the table would say, hey, you have done a little bit on the ante in reducing our foreign troop presence, but bring some more to the table.

You are identifying the ingredients pretty well now. We will see how things play out in the coming months. It is quite important to this country.

Mr. DARMAN. Yes, it is.

Mr. TRAXLER. I have a prediction. Remember where you heard this one first. The next President of the United States will be elected on the ability to convey to the American public the urgency of rebuilding our physical and human infrastructure.

Mr. DARMAN. Including intellectual capital, too, right? I mean, human, physical and intellectual, the R&D component as well.

Mr. TRAXLER. Yes, I think the educational portion of it.

Mr. DARMAN. Well, that is reassuring.

Mr. TRAXLER. It certainly is for me. I appreciate your presence today.

Thank you, Mr. Chairman.

Mr. NATCHER. At this time, I yield to the gentleman from Florida, Mr. Lehman, the chairman of the Transportation Subcommittee.

REFUGEE ASSISTANCE

Mr. LEHMAN. Thank you, Mr. Natcher.

I am sure you are familiar with the problem we have in South Florida, regarding refugees. The entire delegation has written you a letter and you responded to it.

Mr. DARMAN. Yes, sir.

Mr. LEHMAN. There is $35 million in that account, but apparently, the administration does not think an emergency exists in refugee assistance in South Florida. The fact is, we do have an emergency. There are more Nicaraguan-born students in the Dade County school system than there are in most middle city school systems, such as Richmond, Wilmington, New Haven, those kinds of cities.

We have 20,000 Nicaraguan-born students in our program. That does not count the number of Nicaraguan unemployed that are looking for jobs. This has an impact on our health systems and on our housing problems.

I would like to know what you are going to do to help the situation in Dade County, Florida. This is not the result of a local action. Apparently, we have a free trade agreement with Central America that we send them arms and the more arms we send them, the more refugees they send us, right to Miami.

Mr. DARMAN. Yes, sir, I understand the problem, and I don't have a satisfactory answer for you at the moment. As you know, last year, we worked with you and members of the Florida delegation, and Senators Mack and Graham to see if we couldn't reallocate some of the money within the existing law, and at one point, you will recall we tried in the context of the supplemental, to see if we couldn't get an adjustment that would have favorably affected Dade County, but then, as I recall, the formula adversely affected California, and the California delegation thwarted our effort to be helpful and get more funds there.

I don't say that in a pejorative way. They did so for the same reason that you would protect the interests in Dade County. We have got to find a way to work it out. We would like to continue to work with you on what is an appropriate way. It probably requires a legislative change.

I have been led to understand we cannot do it within the existing regulatory framework.

Mr. LEHMAN. Just to read a paragraph, the Immigration Emergency Fund established by the Immigration Reform and Control Act and funded by Public Law 101-152, provides funds for possible increases in border patrol and other activity and reimbursement to States and localities for assistance in meeting an immigration emergency subject to——

Mr. DARMAN. Maybe it is the regulation. The problem with the regulation is that there is a problem in the definition of the eligibility for the emergency criterion that somehow or other adversely affected Dade County. I don't remember the details well enough. For some reason, it didn't apply to the Nicaraguan refugees and did apply to others, and we tried to get a language change in the supplemental. All that would have solved that problem.

Maybe it can be done by regulatory action alone. I will take a look.

Mr. LEHMAN. There will be a supplemental coming along, as you know.

Mr. DARMAN. Yes, I know.

Mr. LEHMAN. We will look at that as a possible solution to this problem, because whether the administration affirms it as an emergency or not, at the Washington level, it certainly is an emergency that is creating social problems and financial problems in our country.

Mr. DARMAN. Yes, sir.

HIGHWAY FUNDING

Mr. LEHMAN. I have one other question. There is a lot of talk in your budget about the needs to improve transportation infrastructure. As it says on page 133, investing in our Nation's transportation system is vital for the continued economic growth. I agree.

Secretary Skinner agrees, and last year Secretary Skinner told us that this year would be the year. However, under your proposals for highways, which account for about 90 percent of all travel in this country, funding declines by about $1 billion.

That is not measured against an inflated base line, but is real money. How do you reconcile the rhetoric of an investment in our Nation's transportation system and the reduced dollar request?

Mr. DARMAN. I think it is a fair point. What we did, if you divide the transportation infrastructure into four headings, this isn't comprehensive, but we did very well in two headings, we stayed about even in one, and we did poorly, by your reckoning, in a fourth.

I think we did well by space, I think we did well by aviation in this budget, much better than some previous ones.

Mr. LEHMAN. That is what bothers me, because——

Mr. DARMAN. Well, I was going to explain. We did poorly by the Congress' reckoning with respect to mass transit, and we have a philosophical difference there on what the Federal role is.

In the case of highways, we basically just said, let's hold it close to level, because we have got the highway reauthorization coming up next year, Secretary Skinner is going around the country doing this policy review, you are having hearings and others are having hearings on this connection with the highway reauthorization, so we just said, let's not make any of the big money decisions that are going to influence the long-term direction until we have completed the hearings and the policy review. Secretary Skinner is going to be coming out with his new policy within the next, I would assume, matter of weeks, and the highway reauthorization hearings are in the next couple of months, right?

Mr. LEHMAN. Yes.

Mr. DARMAN. And so, we will be in a much better position to judge where we should be going for the longer term there. We may well end up with some real differences of view on on highways. I don't want to be misleading. At least we haven't sorted them all out within the administration.

At OMB, I am somewhat skeptical, for example, of investing in a whole bunch of new lanes in the interstate system to make wider ring roads to reduce the congestion in metropolitan areas.

If it is decided as a matter of national policy that the Federal Government has to be responsible for the congestion levels around urban areas, we have got one heck of an enormous bill we are going to pay.

I would rather see that money go into some of these other areas of infrastructure investment, but I am just speaking for myself. We haven't decided on the long-term policy here, Secretary Skinner and I and the President and others—well, the President—will have to sort this out, but we thought all of that would be reviewed on an orderly basis in connection with the highway reauthorization. That is why we essentially just left it flat.

Mr. LEHMAN. Just to make two points. One is that the investment in air travel is certainly up while investment in surface transportation is flat out or less, and to me, it is kind of discriminating against those people that cannot afford to fly.

The second thing you have mentioned is about the future. Your UMTA Administrator told me this morning that the best invest-

ment and the best payback of any investment that this country can make as far as the future GNP is in transportation.

Mr. DARMAN. Well, there are two points on that. One, we might get in—I don't deny that it can have a favorable return. We might get in a little bit of disagreement about whether it is the absolute best return, but even for those where you say it is a good return, there is a question of how much of the subsidy or how much of the payment should be Federal, how much State, how much local, how much private. That is the difference.

I don't say we shouldn't reduce congestion. I am saying I would like to see the terms on which we are going to decide on the Federal, State, local share before we charge down this road, that is all.

Mr. LEHMAN. Well, I hope that the Secretary's transportation strategy or his transportation policy will reflect some of the more positive aspects of this program.

Thank you, Mr. Darman.

Mr. DARMAN. Thank you very much.

Mr. NATCHER. At this time, I yield to the gentleman from Hawaii, Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. Darman, let me begin by commending the administration for rediscovering renewable energy. I think you know that in the last administration, R&D funding for renewable energy suffered quite a bit. I mention the word "rediscovering" because it shows up in your budget, and I am happy to see that.

I was especially pleased to see that Federal spending in fiscal year 1991 for renewable energy research and development will rise to $116 million from $90 million this year, an increase of 13 percent.

Judged by last year's request, your fiscal year 1991 budget represents an 80-percent increase for solar, renewable and conservation research. To make a pun of it, I guess I can say that the administration has seen the light about funding this. I am happy about that.

When we think back about the oil crunch that we had and what we suffered through, which brought out the need for renewable energy R&D and then to have it wane and now to see it come back, it is really great.

So, your budget is good news. It came as a surprise to me. While your budget document provides a brief description of this initiative, I am interested in knowing what brought about this new outlook toward renewable energy?

Mr. DARMAN. Well, maybe it is just the—I can't account for my predecessor's outlook, that is the problem I have. I don't know what the appropriate answer really could be. I know that Bob Grady, who is the Associate Director in OMB responsible for this area, is favorably disposed.

I myself used to be on a National Academy of Sciences panel that was concerned with ocean energy resources, which are, as you know—and have a big interest in some forms under the renewable energy.

So, we don't have a prior negative disposition, but I don't know why or if the previous administration did. I can't really comment on that. I didn't have a role in it before.

Mr. AKAKA. I have two more questions. One is on the base closings and realignment initiative. Did you have anything to do with that or is that out of your jurisdiction?

Mr. DARMAN. Well, we have a limited role at OMB in that we do review the technical appropriateness, and although we tend to defer to defense on that and the pricing, we certainly review the pricing of these base closure proposals and the actual base closures, and so before those were all made public, they were submitted to OMB for review.

We don't have anything to do with making judgments about the military—let's put it this way: We might have our own views, but we don't try to substitute our views for defense in terms of the military appropriateness, and we certainly don't try to apply a political criterion.

Mr. AKAKA. I think you know that there is a complaint that most of these bases are coming from Democratic districts.

Mr. DARMAN. I am aware of that complaint, but of course, it is partly because so many bases went to Democratic districts over the many years the Democrats have controlled the Congress.

Mr. AKAKA. I should tell you this, that I was so interested in this that I went to the Library of Congress and asked them to run the calculation for me on a purely random basis, and I think you would like this, the chance of ending up with 19 Democratic districts out of 21 base closures is greater than 10,000 to 1, and so——

Mr. DARMAN. Amazing.

Mr. AKAKA. If you had something to do with it, I would have asked you the question, how did you arrive at that.

Mr. DARMAN. No, I specifically asked the OMB analysts not to get into the politics of this at all. I recognized the political sensitivity. It is a good one to stay out of if you have any excuse to stay out of it.

Mr. AKAKA. It was reported by the Associated Press today that the dollar would have to devalue by an extra 30 percent before our trade deficit with Japan would be eliminated. What do you think of this devaluation? What impact would that have on our budget deficit?

Mr. DARMAN. Well, I would like to defer to Chairman Boskin, because it is a classic question for the Chairman of the Council, but could I just ask, did it say who said that in the A.P. story?

Mr. AKAKA. Associated Press reported this.

Mr. DARMAN. They must have been quoting somebody, sir. Well, in any case, I will let him speak as a professional and responsible economist. I will speak as an amateur and say that I do not believe it is necessary to have a 30-percent reduction in the dollar in order to improve our trade balance very, very substantially, and I believe there could, in fact, be some substantial adverse effects from the 30-percent downward adjustment of the dollar.

Mr. AKAKA. Mr. Boskin?

Mr. BOSKIN. Mr. Congressman, I would agree. I think the major cause of our external current account deficit or trade deficit tends to devolve from an imbalance between saving in the United States and investment in the United States by Americans, and it is my own view that we need to raise our national saving rate, and that

is the best thing we can do. That is why we are pushing hard to reduce the budget deficit, and we have some other proposals.

I should note that getting our overall trade picture in better balance may not leave us in balance with each and every country. You may recall, as I do fondly, back in the—I have forgotten what grade it was, but it was probably late elementary, early secondary school, we learned about these trade triangles, we learned about the British exporting manufacturers, the colonies which exported agriculture products to the Caribbean, which exported rum back to Great Britain, so it is unclear that any pair of areas or countries would necessarily have a balance, even though they might all in general be in a more balanced position.

I think Director Darman was referring to a variety of things in financial markets from a sharp devaluation, and also the fact that it would be because our trade balance and international capital flows are determined simultaneously, a radical reduction in the value of the dollar would make assets in the United States much cheaper and would cause foreigners, once we stabilize the lower level, to want to purchase more assets here.

To do that, they are going to have to sell us more goods than they buy from us to get the dollars to buy the assets, so in general, we favor a regime where there is a relative stability rather than a sharp devaluation.

Mr. AKAKA. Fine.

Thank you.

Mr. NATCHER. At this time, I yield to Mr. Smith for an additional question.

$30 MILLION REQUEST FOR TREE PLANTING

Mr. SMITH of Iowa. Mr. Director, I have a real quick one here. On page 122 of your budget for the fiscal year, you don't need to look it up now, it says that you have $30 million here for the tree program for street trees, trees in local parks, community forests and residential trees.

Would you have someone identify where that $30 million is?

Mr. DARMAN. Yes, I made a mistake earlier. I said that I thought it was in Interior, and in fact, we apparently put the whole 175, of which that 30 is a part of, I believe, in the USDA, but at lunch in the break, I asked the person who is working on this in the White House to come up with the short paper that says exactly what our program is, because——

Mr. SMITH of Iowa. As soon as we get back, the Small Business Committee is going to report a bill to do exactly what you want to do.

Mr. DARMAN. I followed up on your earlier question right at lunch and said we had to get on top of that, and get it up to you.

FEDERAL JUDICIAL BUILDING

Mr. SMITH of Iowa. The other thing is, are you acquainted with a scorekeeping problem on the new Federal Judicial building?

Mr. DARMAN. Oh, yes. You mean on the lease purchase request?

Mr. SMITH of Iowa. Yes. As I understand it, OMB has at least tentatively decided that the whole $51 million would be scored

against our bill this year, and then each year as we are paying rent, it gets scored again; it sounds like it would be double scoring.

Mr. DARMAN. I don't think it would be subject to double counting, but I think the——

Mr. SMITH of Iowa. It will be in our outlays for those outyears.

Mr. DARMAN. In the outyears, but it is the B.A. that would be upfront. Just a second. The lease payments would be scored against Judiciary, which isn't in your appropriation, is it?

Mr. SMITH of Iowa. Yes, it is. That is the point, we get scored this year.

Mr. DARMAN. I wasn't familiar with that particular problem. Well, that is——

Mr. SMITH of Iowa. I wouldn't take more of your time. The point is it is not right.

Mr. DARMAN. It is scored against the Legislative Branch. How does that adversely affect you?

Mr. SMITH of Iowa. Well, you put it in there, but they are not going to accept that in Legislative Branch, because it is for the judiciary. So they are going to shift it into our Subcommittee's 302(b) allocation and we will have to absorb it. It is not right to score that in the year when you let the contract and then score it again in the years when we have to appropriate the funds for the rental payments on the building.

You are not doing that for anything else, are you, in the Government?

Mr. DARMAN. You certainly shouldn't get charged twice, although there are two different transactions, but the least transaction is a payment to ourselves, and that one, you shouldn't get charged for.

Mr. SMITH of Iowa. Well, the point is if you don't change your scoring on that, you may kill the project. If we are going to pay $51 million up front, we will just do it and be done with it and give them their bonds back.

Mr. DARMAN. Yes.

Mr. NATCHER. This concludes the overview hearing on the budget for fiscal year 1991. This has been a good hearing, Mr. Darman. We want to thank you and Mr. Boskin and Secretary Brady for appearing before the committee at this time.

The committee will now adjourn.

Mr. DARMAN. Thank you.

Mr. BOSKIN. Thank you, Mr. Chairman.

[The following questions from Mr. Atkins were submitted for the Record. Responses were provided by the Office of Management and Budget.]

WASTEWATER TREATMENT FUNDING

Mr. ATKINS. After the President's State of the Union message, a number of Members charged that it was a "Democratic" speech that, unfortunately, was coupled with a Republican budget. In other words, the promises for increased attention to education, child care, the disabled and the environment were included in the speech, but the funds to back them up were not included in the President's budget.

I'd like to focus on one of those examples—the environment—and, in particular, one environmental program—wastewater treatment construction funding. In the 1987 Clean Water Act amendments, Congress agreed to phase out the existing construction grants program, which had long been opposed by the Republican administration, and instead gradually phase in the State Revolving Fund Program, which would shift responsibility for wastewater treatment to the states and localities. Fiscal year 1992 marks the first year in which no funding is authorized for construction grants, and the entire authorization of $2.4 billion is for the SRF.

Mr. Darman, a recent survey of needs produced by the EPA declared that municipalities across the country face $83.5 billion in wastewater treatment investment needs by the year 2008. Nobody seems to have any idea where this money is going to come from, other than from enormous increases in local water and sewer bills. The SRF will provide some relief, but you have come in with a funding request that is one-third less than the authorized level and close to $350 million less than the fiscal year 1990 level. How can you justify such a major cut in a program that was seen as crucial to shifting responsibility from the Federal Government to the states, and where do you think all of this money is going to come from in the next 15 years?

RESPONSE. The Federal Government has invested more than $52 billion in local wastewater treatment facilities. Wastewater treatment is essentially a local need, and a local responsibility. Furthermore, the program has also essentially accomplished its original objective to eliminate the backlog of sewage treatment needs and has provided sufficient funding to meet municipal compliance requirements. Almost 98 percent of American cities have already met this standard, or are on compliance schedules. Nationally, 85 percent of our people who need to be served by centralized treatment facilities are being served by them. EPA's 1988 needs survey forecast about $27 billion in remaining secondary treatment needs to serve the U.S. population in the year 2008. With the Federal and State contributions to the State Revolving Funds, and the ability of those funds to leverage their assets so as to roughly triple the pool of capital available for investment in sewage treatment plants, the additional burden on local governments need not be excessive.

Finally, the $1.6 billion requested in fiscal year 1991 is $400 million more than in the President's fiscal year 1990 budget. This reflects an increased commitment by the administration to adequately capitalize SRFs.

Mr. ATKINS. This is just one example of the enormous costs we face in repairing and modernizing our national infrastructure. You cited the need for responsibility and "seriousness" in your budget essay, but this is one "hidden Pac Man" that has been ignored by both the budget and the State of the Union address. Why?

RESPONSE. Fundamentally, wastewater treatment is a non-Federal responsibility. This has been recognized since the beginning of the construction grants program, which was originally intended to accommodate a one-time $18 billion backlog in local government needs. Congress recognized that this would not be an ongoing Federal responsibility as recently as the time of the passage of the the Water Quality Act of 1987. Local municipal sewage treatment was

not addressed in the State of the Union address because it is primarily a State and local—not a Federal—responsibility. Nonetheless the administration has addressed it in the fiscal year 1991 budget, asking for $400 million more than was requested in fiscal year 1990, in an effort to help get the State Revolving Funds capitalized adequately and promptly.

More generally on the topic of infrastructure, the fiscal year 1991 budget request for the Army Corps of Engineers includes a 3-year effort to develop a Federal strategy for addressing America's infrastructure problems. Currently, there is no integrated Federal focus on infrastructure issues and no means to evaluate and implement recommendations such as those in the 1988 "Fragile Foundations" report of the National Council on Public Works Improvement. The fiscal year 1991 budget includes $350,000 to establish a Federal Infrastructure Advisory Board and lay out a specific course of action to develop a Federal infrastructure strategy. During the following 2 years, recommendations would be developed to address issues such as these: modifying Federal programs to improve infrastructure development and management; public and private roles in infrastructure; the benefits associated with infrastructure and the evaluation and prioritization of public and private investment; and institutional changes needed to adequately address the Nation's infrastructure problems.

BOSTON HARBOR CLEAN-UP

Mr. ATKINS. Finally, I must address an infrastructure concern that is admittedly parochial in nature, but one that should hold a great deal of importance to President Bush. In the summer of 1988, candiate George Bush traveled to Boston and chastised his opponent for failing to clean the dirtiest harbor in the country, but in two budget submissions he has refused to include a single cent for Boston Harbor clean-up. How can the President call Boston Harbor a national disgrace, then fail to do anything about it when elected to our highest national office?

RESPONSE. The Congress has established a formula for allotting construction grants to States, including Massachusetts. Under this formula, $1.6 billion has been allocated to Massachusetts over the years, which has set its own priorities for funding projects. At the time, Massachusetts didn't devote the money it was getting to Boston Harbor—most of the money went elsewhere.

In the fiscal year 1991 budget, applying the Congressionally mandated formula would produce a $54 million share for Massachusetts. If the State leverages these funds, as allowed and encouraged under the Clean Water Act, up to $162 million could be available in fiscal year 1991 for low-interest or even zero-interest loans to Boston for wastewater treatment projects to clean up the harbor.

Boston is currently under a compliance agreement with EPA to clean up the Harbor, and EPA intends to enforce this order vigorously. Massachusetts is going to have to pay a share of the cost of the program, like other States. Interestingly, they would have had to pay much less if they had built the plant earlier—instead of dragging their feet. The delay, it turns out, was very costly.

[The following questions from Mr. Chapman were submitted for the Record. Responses were provided by the Office of Management and Budget.]

FOSSIL ENERGY RESEARCH

Mr. CHAPMAN. In light of recent record declines in U.S. domestic petroleum production, increasing U.S. dependence on imported oil and the consequent dramatic effect on our trade deficit, do you think the administration's proposed cuts in the Department of Energy's fossil energy program represents a policy which best serves our immediate future energy needs?

RESPONSE. The President's Budget does not reduce oil and gas R&D. In fact the Budget requests $54.4 million for oil and gas R&D in fiscal year 1991. This is double last year's request and is comparable to the $54.3 million Congress appropriated in fiscal year 1990. What's more important, however, the Budget is proposing $17 million to initiate a cooperative cost shared oil and gas R&D program with industry and leading universities to increase production from known fields. Only one-third of the oil in these fields has been produced, leaving available over 300 billion barrels, or twice U.S. cumulative production to date. This resource is the target of our proposed oil and gas initiative.

And we believe the results of this R&D initiative will be more useful to industry because the private sector will be involved in planning and conducting the research.

SUPERCONDUCTING SUPER COLLIDER (SSC)

Mr. CHAPMAN. The administration's fiscal year 1991 request of $318 million for the Superconducting Super Collider is less than the original out-year funding plan (calling for $393 million in fiscal year 1991). Does this change imply a waning support for the program by the administration?

RESPONSE. This change does not imply any waning support for the SSC in the administration. The fiscal year 1991 funding request is for a significant, 45 percent, increase over the fiscal year 1990 level, and represents a substantial investment commensurate with the current status of the project.

Mr. CHAPMAN. I am pleased to note the administration's proposed increase in funding for the National Science Foundation of 14 percent over last year's appropriation, and I believe that the goal of doubling the NSF's budget by 1993 is commendable. Do you believe that funding for the SSC has had an adverse impact on "small science" funding?

RESPONSE. As far as the administration is aware, the SSC has not had an adverse impact on funding for "small science", that is, funding for research performed by individual scientists and engineers. As reflected in the proposed NSF budget for 1991, the budget increases for the SSC have not been at the expense of funding for "small science". Moreover, it is important to remember that the SSC, like other major research facilities, will be used by thousands of individual scientists and small groups of scientists to advance their research. Thus, funding for the SSC, for NASA's proposed Earth Observing System, and for NSF's proposed Gravity Wave Ob-

servatory, for other major research facilities, complements and supports funding for individual investigators.

Mr. CHAPMAN. Since both the administration and the Congress wish to build the Super Collider in the most cost-effective manner available, don't you agree that the Department of Energy should move ahead with its foreign participation plan as soon as possible?

RESPONSE. The administration believes that one-third of the total project funding for the Superconducting Super Collider (SSC) should be provided by non-Federal sources, such as the host State and foreign countries. We strongly support the need for international participation and substantial cost-sharing as essential for the success of the SSC project. Before we approach potential partness in this venture, however, we need to know exactly what the facility will look like and what it will cost.

The Department of Energy is completing its preparation of a plan for international participation in the SSC. Once this plan is completed, and a validated cost estimate established for the project, the Department of Eenrgy will then be ready to begin discussions with potential international participants.

[The following questions from Mr. Green were submitted for the Record. Responses were provided by the Office of Management and Budget.]

MASS TRANSIT CUTS FOR NEW YORK CITY

Mr. GREEN. While I would like to commend the administration for providing over $2 billion in budget authority for initiatives to protect the environment, how does the administration justify that commitment when it proposes a $704 million cut in mass transit funding. This cut translates into a $144 million reduction to New York City. Further, the fiscal year 1991 plan seeks to eliminate operating assistance to urbanized areas with populations greater than 1 million—this would force fare increases in New York City and Buffalo, affecting more than 6.1 million passengers daily.

The largest metropolitan areas are by and large those having the greatest problems in meeting federal NO(x) and CO standards, a largely automobile caused problem. Thus it seems quite perverse to cut those areas out from mass transit funding.

It is my belief that by maintaining cost and energy efficient mass transit we discourage unnecessary car use and conserve limited domestic petroleum resources. In addition, reducing gasoline use will help with respect to our carbon monoxide and ozone non-compliance problem, as well as have a positive effect on the "greenhouse effect."

Furthermore, with congestion problems in major urban areas what do we accomplish if we force people to take cars? All we create it greater gridlock problems. What purpose do the cuts establish? And how can you justify them?

RESPONSE. While it is true that the President's 1991 budget would reduce the mass transit program by approximately 25 percent from the 1990 level, about 68 percent of the decrease would result from the administration's proposal to eliminate formula operating subsidies for the 30 cities with populations over 1 million. These cities are far less dependent on Federal subsidies than the

smaller cities as Federal subsidies constitute, on the average, less than 6 percent of the total operating budgets of the affected areas. More specifically, in New York City, Federal operating subsidies represent 2.8 percent of its total operating costs. The large metropolitan areas can more than offset the proposed Federal reduction by increasing State and local financing and by implementing cost-saving measures.

The Federal government should not be required to subsidize those activities the costs of which are largely determined by the local decision-making process. Operating costs are largely driven by local collective bargaining, fares and service policies over which the Federal government has no control. Furthermore, average operating costs per vehicle hour in the largest cities are 60 percent higher than the average for the smallest cities, indicating that the smaller urban areas are more efficient in controlling their costs.

Although the President's budget places less emphasis on operating subsidies, it targets Federal assistance toward the maintenance of the capital infrastructure, particularly in the larger cities. Under the administration's proposal, formula capital assistance is basically held harmless for the largest cities, and the older rail cities will continue to receive their share of discretionary rail modernization funds, which has historically been about 30 percent for New York City.

Under the President's budget, much of the $193 million proposed for discretionary bus funding will be used to assist communities with the incremental costs of the President's Clean Air Act. Most of this funding will be distributed among urban areas of over 1 million in population, which are the ones affected by the legislation.

Thus, mass transit assistance for the large metropolitan areas has not been preversely cut. Not only will these areas receive assistance to maintain the transit capital infrastructure, but also to meet the requirements of the Clean Air Act.

Although the administration sees mass transit as one of the means by which to reduce air pollution, traffic congestion and domestic fuel consumption, it recognizes that providing more Federal assistance will not make mass transit more competitive vis-a-vis the private automobile, a principal cause of these problems. While mass transportation continues to play an important role in large and densely populated cities, such as New York, ridership continues to decline nationwide. In 1983, mass transit trips constituted only 4.75 percent of urban travel in the entire nation. Any attempt to make mass transit more competitive through greater Federal subsidization would prove to be a highly cost-inefficient way to reduce automobile usage and to address the Nation's environmental and transportation problems.

DRUG FUNDING FOR NEW YORK CITY

Mr. GREEN. I was pleased to see that the President's budget recognizes the fact that New York City has an extraordinary drug problem, and designates the city as a High Intensity Drug Trafficking Area (HIDTA). I am interested in determining what role the City will have in determining how the additional dollars are spent? Whether on treatment and prevention or interdiction?

RESPONSE. The High Intensity Drug Trafficking Areas program is a Congressionally mandated Federal initiative that will enhance Federal efforts to help New York City combat drug trafficking. Federal agencies will continue to coordinate their investigations and operations with the City.

New York City will continue to have the same type of participation in the process of determining which Federal drug-related resources for treatment, prevention, interdiction and law enforcement will flow to the City as it has for any other Federal program.

FOREIGN AID

Mr. GREEN. I am pleased to note that the administration's budget recognizes the vital importance of continuing to provide security assistance to our historic allies such as Israel, Egypt, and the Phillippines, and does not appear to endorse, at least not in this budget, proposals which seek to cut current levels of foreign assistance to some allies in order to provide new economic assistance to Eastern Bloc nations.

It is my belief that what the budget needs is less defense, not less foreign aid. As you know, U.S. assistance to our main allies has been declining in real dollars in recent years, and I certainly see no good excuse for squeezing them further. I am interested to learn of the administration's longer term view on this issue.

RESPONSE. The fiscal year 1991 budget does project the kinds of trends you are suggesting. If you compare the defense budget over the period—relative to the Gramm-Rudman-Hollings baseline or better yet to previously approved defense programs—you see substantial savings in the President's budget especially in the outyears. A number of Members would prefer to see these outyear savings realized earlier; however the trend is unmistakable in any event.

The foreign aid budget—and specifically the country allocations for the fiscal year 1991 request—continues to recognize the importance of our friends and allies worldwide. Excluding the one time supplemental for Panama, foreign aid grows by almost 7 percent over fiscal year 1990. In the outyears, the foreign aid budget maintains its value in real terms.

One additional point should be made. The Dole proposal has served a very useful purpose in focusing attention and debate on the problems related to extensive earmarking of foreign aid in a dynamic and changing world environment.

[The following questions from Mr. Green were submitted for the Record. Responses were provided by the Council of Economic Advisers.]

Mr. GREEN. We seem to have an embedded 4% inflation rate. Is this acceptable, since it surely locks us into a high interest rate economy? If not, what is the Administration doing about it?

RESPONSE. The current rate of inflation is much lower than the double-digit rates that were experienced at the beginning of the 1980s. In addition, current inflation rates are more stable now and thus more predictable. Nevertheless, inflation is not so low that it is not a factor in households' and businesses' decisionmaking, and therefore further reductions need to be obtained. An even lower

rate of inflation would help our economy to operate at its most efficient level and would help minimize the inequitable redistribution of income and wealth that accompanies unanticipated inflation. The President supports a monetary policy that gradually and predictably reduces inflation. In addition, the President has proposed a number of initiatives to increase national saving. These initiatives, if implemented, will reduce government demands on credit markets, directly lowering interest rates, and also reducing pressures on the Federal Reserve to monetize Federal budget deficits.

[The following questions from Mr. Rogers were submitted for the Record. Responses were provided by the Office of Management and Budget.]

FOREIGN AFFAIRS ADMINISRATIVE SUPPORT TRANSFERS (FAAS)

Mr. ROGERS. Mr. Darman, in the fiscal year 1990 budget request, OMB responded to the Committee's long-time interest and directive to allocate the costs of certain administrative services to the various agencies requiring them abroad. Previously, the State Department budgeted for these services and provided them to the other agencies on a nonreimbursable basis. $77 million was requested from other agencies as a result of this policy for fiscal year 1990.

However, in your fiscal year 1991 request, you have reversed this policy, putting the requested funds back in State's budget. The Committee insisted on the FAAS expansion as a potential cost containment measure. Why have you reversed it?

RESPONSE. We firmly support overseas cost containment, however, implementation of the fiscal year 1990 FAAS proposal has been severely impeded by legislative restrictions on the associated reimbursements to the State Department from its two largest administrative support users—the agency for International Development (AID) and the U.S. Information Agency (USIA).

Section 614 of the 1990 Commerce, Justice, State Appropriations Act effectively denies USIA access to the $24 million of the $77 million transferred from State's budget so that other agencies could reimburse State for the support costs generated by their overseas programs.

Similarly, AID is limited to a reimbursement of $15 million for State Department support provided under the Foreign Affairs Administrative Support (FAAS) system in 1990. It is further precluded from reimbursing State for any 1990 services provided free of charge in prior years. The AID reimbursement shortfall is estimated at $14 million.

For fiscal year 1991, the administration believes that a return to previous cost-sharing arrangements is necessary to ensure that the State Department is not again forced to divert resources from its operational programs in order to meet the administrative support workload of other agencies. This is especially important now as the administration attempts to identify the resources necessary to support the President's foreign policy initiatives in Eastern Europe and the Andean nations.

[The following questions from Mr. Rogers were submitted for the Record. Responses were provided by the Council of Economic Advisers.]

STATISTICS INITIATIVES IN THE PRESIDENT'S BUDGET

Mr. ROGERS. Mr. Boskin, the fiscal year 1991 budget for the Department of Commerce includes substantial increases for the Economic and Statistical Analysis and the Bureau of Census for the improvement of a variety of economic statistics and surveys. The increases are intended to implement the recommendations of a working group of the Economic Policy Council.

What is the impetus for this major effort?

Describe the current quality of our economic statistic collecting and disseminating ability.

Would this include detailed and improved data on the nature of foreign investment?

[The information follows:]

IMPROVING THE QUALITY OF ECONOMIC STATISTICS

The United States' statistical system is among the finest in the world and has steadily improved. It is staffed by able and dedicated professionals. However, serious problems remain in the quality of the economic statistics, especially in those rapidly changing areas of the economy where accurate information is most urgently needed. In addition to members of the Federal statistical system, numerous professional organizations including the American Economic Association and the National Association of Business Economists, the National Academy of Sciences, as well as the Congress have also become concerned over the quality, timeliness, accuracy, methodological soundness, comparability, and usefulness of the economic statistics. Many of these concerns conflict with one another, and priorities must be developed to deal with inevitable tradeoffs, such as those between accuracy and timeliness.

To address these concerns, the President has approved a multiyear initiative to improve the economic statistics.

This initiative will build on the data improvement efforts already underway at the statistical agencies.

The President has approved a set of 25 recommendations developed by a working group of the Economic Policy Council. These recommendations include both short- and long-term improvements, and focus on the most important steps required to maintain and improve the quality of the economic statistics.

The statistical agencies have reprogrammed funds during the current fiscal year to address the priorities identified by the working group, and the relevant agencies are currently developing specific plans to implement the working group's improvements.

The fiscal year 1991 budgets for the relevant statistical agencies include additional funds to begin to implement some of the recommendations.

Over the next few months the statistical agencies will report back with their detailed plans to implement the working group's recommendations.

The working group will develop a comprehensive long-term program to improve the economic statistics. In addition to developing options to fully implement the 25 recommendations, the program will consider organizational, methodological, and other global improvements, as well as the resources required to implement them.

It will present options to the Economic Policy Council later this year for possible recommendations to the President.

The Working Group is chaired by Dr. Michael J. Boskin, Chairman of the President's Council of Economic Advisers, and includes representatives of the major producers and users of economic statistics in the Federal Government. In its work thus far, the group has surveyed the statistical agencies to assess existing plans and priorities; gathered suggestions for further improvements from the agencies and from the community of users inside the Administration, in Congress, and outside government, and; developed a recommended package of the highest priority improvements in economic statistics.

In preparing its recommendations, the Working Group found that there are problems with some of our most important economic statistics. The Working Group has made specific recommendations to address these deficiencies.

The economic statistics are important because of their large impact on the economy. Private orders and contracts, cost of living adjustments, the Federal budget, and monetary policy are all based on the economic information produced by the Federal statistical system.

The most serious problem in measuring output in our rapidly evolving economy is estimating quality change in many important sectors. When we as a nation produced mostly things like steel and wheat, output was easy to count, tons of steel and bushels of wheat. Today a larger share of output is in sectors where better performance means quality and improved convenience: consider the impact of twenty-four hour automatic teller machines, and the changes in desktop and laptop computers. Measurement problems are most severe in rapidly growing industries like services and microelectronics, and it is likely that output in these industries is underestimated.

Use of price indexes that appropriately adjust for quality change can be quite important. When the Commerce Department recently introduced a new computer price index that only partially adjusted for quality change, it *raised* real GNP growth from 3.8 to 4.1 percent (a difference reaching $70 billion by 1988) and *lowered* the rate of inflation (as measured by the GNP price deflator) from 3.6 to 3.3 percent between 1982 and 1988.

In some industries, the problem is a statistical system that has not kept pace with changes in the economy.

In the airline industry, deregulation has produced lower fares and widespread discounting, causing passenger miles to increase by over 60 percent in the 1980s. Yet the price index is still heavily based on full-fare tickets, which now account for only 10 percent of tickets. Since output is not measured directly, but rather estimated by dividing sales by a price index, the overstatment of the prices causes a corresponding understatement of output and productivity.

In some industries such as education and health care, even defining the unit of output is difficult. As test scores of American students have declined, measures of educational output based on numbers of high school graduates have become less comparable over time. With rapid changes in technology and care, the "product" of a doctor visit or a hospital stay has also changed dramatically over

time. (Given these problems in even defining the unit of output, developing measures of "real" inflation-adjusted output is extremely difficult.)

In addressing such problems and in setting its priorities the Working Group focused on proposals that addressed well-known measurement errors, that were in areas important to the economy and public policy, that were cost-effective, and that could be completed in a reasonable period of time. Many of the recommendations complement ongoing plans for improvement, sometimes suggesting a reprioritization of improvements, alternative methods, or a rearrangement of the timetable for improvements. The suggested improvements include the following:

Productivity, Output, and Prices

Service Sector: Explore alternative methods for estimating constant dollar output; accellerate and rearrange timetable for service sector improvements; expedite the compilation of input/output data; increase cooperation between the statistical establishment and academic researchers; and consider the efficacy of mandatory versus voluntary surveys.

International Trade: Accelerate improvements in estimates of trade in services; extend efforts to reconcile import and export data to Mexico, the European Community, South Korea and Japan; continue work to increase automation of export and import data collection; and increase the ease of access to trade data.

Construction: Complete ongoing methodological and data collection improvements and incorporate these in the 1990 GNP revisions.

Prices: Expand and seasonally adjust the employement cost index; and accelerate the BLS programs to expand and improve producer, consumer, and international price indexes to measure service prices more accurately.

Investment, Saving, and National Wealth

The System of National Accounts (SNA): Revise the U.S. national income and product accounts to be consistent with the major components of the United Nations system of national accounts, which are used by most of the major industrialized nations of the world.

International Investment: Estimate direct investment using market values or replacement cost rather than historical cost and address problems with the measurement of international portfolio investment and other capital flows.

Domestic Investment and savings: Accelerate work to improve measures of investment and saving and to the extent possible reconcile differences between the various measures of saving; improve the collection, coverage, and processing procedures for the financial flow data used in the Federal Reserve Board flow of funds accounts; and undertake the proposed annual investment survey at the Census Bureau.

Inflation Adjustments: add supplementary series to the national income and product accounts that separate the real and inflation components of the return to capital. Currently this is done only with the corporate profits series.

Employment, Income, and Poverty

Family Income and Poverty: Begin research on developing a new benchmark estimate of poverty appropriate to prices, consumption patterns and family composition in the 1990's; and continue publication of the experimental estimates of real family income and poverty.

Business establishments: Continue work toward the goal of eliminating unnecessary duplication, but avoid the loss of unique and important alternative data; and explore ways for Census to share its establishment data with the BEA, for use in improving the national accounts.

The Survey on Income and Program Participation: Explore the possibility of carefully linking the data from the Survey on Income and Program Participation (SIPP) to administrative records, while taking great care to safeguard confidentiality.

Labor Force: Continue BLS and Census efforts to improve and modernize the current population survey and the current employment statistics program; and continue BLS efforts to reconcile and reduce discrepancies between the employment series arising from the household and the establishment surveys.

As the Administration proceeds with this initiative, it will continue to work in close cooperation with the Congress, the private sector, international organizations, and the community of data users.

[The following material was extracted from the Economic Report of the President, House Document No. 101–121.]

Appendix B—Improving the Quality of Economic Statistics

The Council of Economic Advisers has by the nature of its basic mission always been intensely interested in the quality of economic statistics. Economic statistics are critical to the Council's analyses of policy issues, advice to the President, forecasts on the economic outlook, and production of this *Report.* The Council also has an important role in the dissemination of economic statistics through the monthly publication of *Economic Indicators* and Appendix C of this annual *Report.*

The Council and other agencies have become increasingly concerned with the quality of economic statistics, and a number of reports in the 1980s addressed problems with key statistics. In addition to members of the Federal statistical system, numerous professional organizations including the American Economic Association, the National Association of Business Economists, and the National Academy of Sciences, as well as the Congress have become concerned over the quality, timeliness, accuracy, methodological soundness, and comparability of economic statistics.

Numbers That Move the Economy

Although the United States has one of the finest statistical systems in the world, changes in the structure of the U.S. economy are making it increasingly difficult to track the course of the economy accurately. Accurate measurement is critical, because the "core" economic statistics have such a large impact on the econo-

my. Statistics provided by the Federal Government alter private and public spending patterns, move markets, and drive government policy. Private contracts and orders, investment decisions, cost-of-living adjustments, the Federal budget, and monetary policy are all based on the economic information produced by the Federal statistical system.

Many analysts question the accuracy of measurement of even the most basic variables, such as output and inflation. This perceived decline in the quality of the basic national economic statistics series is particularly disturbing. Maintaining and improving these "core" statistics will be increasingly important as the Nation moves into the 1990s.

Tracking Economic Activity in Today's Economy

Measuring Productivity, Output, and Prices

Measuring output involves measuring both increases in quantity and quality. The most serious problem in measuring output in our rapidly evolving economy is in estimating improvements in quality. When the Nation primarily produced things such as steel and wheat, output was easy to count—tons of steel and bushels of wheat. Today, a larger share of output is produced in sectors where increases in output are often in the form of improved quality and convenience: consider the impact of 24-hour automatic teller machines and of desktop and laptop computers. Measurement problems are most severe in rapidly growing industries such as services and microelectronics, and it is likely that real output growth in these industries is underestimated.

In some industries, output is now estimated by labor input. If total hours worked rises by 1 percent, then output is estimated to rise by 1 percent. The result is that productivity (output per hour worked) is assumed constant, so that measured productivity growth is automatically zero.

In other industries, output is estimated by dividing net sales by a price index. Unfortunately, in industries with rapid rates of innovation, it is difficult to separate pure price increases from those arising from improvements in product quality or service. For example, if problems in identifying and measuring quality changes cause the rate of pure price increase to be overstated, the measure of real output will be understated, and the overall rate of inflation will be overstated.

Price indexes that appropriately adjust for quality change can be quite important. When the Department of Commerce introduced a new computer price index that adusted for quality change, it *raised* the average annual growth rate of real gross national product (GNP) between 1982 and 1988 from 3.8 to 4.1 percent, raising the level of real GNP by $70 billion in 1988. Correspondingly, the new computer price index *lowered* the average annual rate of inflation (as measured by the GNP implicit price deflator) from 3.6 to 3.3 percent over this period.

In other industries, the statistical system may not have kept pace with changes in the economy. In the airline industry, deregulation produced lower fares, and passenger miles increased by more than 60 percent in the 1980s, yet reported output growth has been

below average, and productivity—as measured by value-added per hour worked—has been declining. Part of the problem may be the result of the difficulties in developing real—price-adjusted—measures of output during a period when the fare structure was changing rapidly. Today less than 10 percent of tickets are sold at full price; in 1976, 85 percent of travelers paid full price.

It is hardest to measure output in the service-producing sector, where many problems arise; rapid innovation, frequent changes in pricing, and difficulties in accurately measuring and defining sales and units of output. Industries such as finance, and real estate, which are among the fastest growing in the economy as measured by sales and employment, are only average in terms of measured GNP growth. And despite rapid innovation, based in part on revolutionary advances in computation and communications, productivity in these sectors, as measured by value-added per hour worked, fell in the 1980s.

The increasing importance of the service-producing sector relative to the goods-producing sector has not only increased the difficulty of measuring total output, but has also increased the difficulty of collecting data on output. It is easier and less expensive to collect data in manfacturing industries dominated by large firms than inservice industries dominated by small firms. For example, by surveying three firms in the auto industry it was possible to obtain data on more than $150 billion in sales in 1987; whereas it would have required surveying all of the 189,000 firms in the eating and drinking industry to obtain data on $150 billion in sales.

Finally, while the economy as a whole has gained from deregulation in transportation and services, Federal statistics have suffered. Deregulation has helped to increase competition, spur growth, and lower prices, but it has meant that data once available from regulators must be collected directly, in many cases from a larger number of firms.

MEASURING INVESTMENT, SAVING, AND WEALTH

The problems in economic statistics are not limited to output and inflation, but extend to other areas ranging from saving and wealth to income and poverty.

Investment and saving rates are critical factors in economic growth, international trade flows, economic stability, and the evolution of national wealth. Understandably, U.S. rates of saving and investment, particularly in relation to other countries, have been central to the debate on tax, budget, and trade policies. Yet estimates of U.S. saving and investment are not internationally comparable and may be seriously misleading.

The United States is one of only a few major industrialized countries in the world where national income accounts classify government expenditures on bridges, highways, and other investments as consumption rather than investment, which renders international comparisons of national saving and investment rates difficult. U.S. statistical conventions also use historical rather than replacement costs to value international assests. Since most U.S. investments abroad were purchased some time ago, while most foreign investments in the United States have been made in recent years, U.S.

assets abroad are undervalued relative to foreign assets in the United States.

MEASURING INCOME AND POVERTY

Estimates of the level and distribution of real family income and of the extent and nature of poverty drive political debates and decisions about social policy and the safety net. Yet the poverty index we use is based on research that was done in the 1950s and 1960s and may not be well suited to the 1990s. Although most major statistical series are revised every 5 years to reflect current price, consumption, and production patterns, the official poverty measure has not had a significant revision in over 25 years.

The Bureau of the Census in recent years has produced experimental measures of poverty that partly correct for well-known problems with the official poverty thresholds and with the definition and measurement of income. These adjustments significantly affect estimates of the level and trends in income and poverty. For example, depending on the definition of income, Census estimates of the poverty rate can vary widely (e.g., by as much as 10 percentage points). A case in point involves the estimated rate of price inflation. Using a consistent measure of price change can lower the poverty estimate by 1.5 percentage points. It also shows real family income rising, albeit slowly, rather than falling during the 1970s.

Nevertheless, our basic understanding of appropriate measures of poverty remains far from complete. Additional research on relevant prices, consumption patterns, and family composition in the 1990s is needed to improve our understanding of the level and distribution of economic need in this country.

IMPROVING ECONOMIC STATISTICS

The President has established a working group on improving the economic statistics. The working group is chaired by Michael J. Boskin, Chairman of the President's Council of Economic Advisers, and includes representatives of many of the major producers and users of economic statistics in the Federal Government. In its work thus far, the group has: surveyed the statistical agencies to assess existing plans and priorities; gathered suggestions for further improvements from the agencies and from the community of users inside the Administration, in the Congress, and outside government; and developed a recommended package of the highest priority improvements in economic statistics.

In developing its initial recommendations, the working group concentrated on developing priorities to resolve the inevitable conflicts between the various improvement goals, such as those between accuracy and timeliness. The resulting recommendations focus on proposals that address well-known measurement errors, that are in areas important to public policy, that are cost-effective, and that can generally be completed in a reasonable period of time.

Based on the working group's recommendations, the President has approved a multi-year initiative to improve economic statistics:

> This initiative will build on the data improvement efforts already underway at the statistical agencies. Wherever possible it will complement ongoing plans for improvement by repriori-

tizing, using alternative methods, or revising the existing timetable for improvements.

The President has approved the initial set of recommendations developed by a working group. These recommendations include both short- and long-term improvements, and focus on the most important steps required to maintain and improve the "core" economic statistics in three major areas of policy concern: a) productivity, output, and prices; b) investment, saving, and wealth, and; c) employment, income, and poverty.

The statistical agencies have reprogrammed funds during fiscal 1990 to address the priorities identified by the working group, and the relevant agencies are currently developing specific plans to implement the working group's improvements.

The fiscal 1991 budgets for the relevant statistical agencies include additional funds to begin to implement some of the recommendations.

The statistical agencies will report back to the working group with their detailed plans to implement its recommendations.

The working group will develop a comprehensive long-term program to improve the economic statistics. In addition to developing options to fully implement the working group recommendations made to date, the program will consider organizational, methodological, and other overall improvements, as well as the resources required to implement them. It will present options to the Economic Policy Council for possible recommendations to the President.

As the Administration proceeds with this initiative, it will continue to work in close cooperation with the Congress, the private sector, international organizations, and the community of data users.

BIOGRAPHIES

NICHOLAS F. BRADY

Nicholas F. Brady became the 68th Secretary of the Treasury on September 15, 1988.

Secretary Brady served in the United States Senate from April 20, 1982 through December 27, 1982. During that time he was a member of the Armed Services Committee and the Banking, Housing and Urban Affairs Committee.

In 1984 President Reagan appointed Secretary Brady Chairman of the President's Commission on Executive, Legislative and Judicial Salaries. He has also served on the President's Commission on Strategic Forces (1983), the National Bipartisan Commission on Central America (1983), the Commission on Security and Economic Assistance (1983), and the Blue Ribbon Commission on Defense Management (1985). Most recently, Secretary Brady chaired the Presidential Task Force on Market Mechanisms (1987).

Secretary Brady's career in the banking industry spans 34 years. He joined Dillon, Read & Co. Inc. in New York in 1954, rising to Chairman of the Board. He has been Director of the NCR Corporation, the MITRE Corporation, and the H. J. Heinz Company, among others.

He has also served as a trustee of Rockefeller University and a member of the Board of The Economic Club of New York. He is a member of the Council on Foreign Relations, Inc. He is a former trustee of the Boys' Club of Newark.

Mr. Brady was born April 11, 1930 in New York City. He was educated at Yale University (B.A., 1952) and Harvard University (M.B.A., 1954). He and his wife, Katherine, have four children.

Richard G. Darman

On January 25, 1989, the Senate confirmed Richard G. Darman as Director of the Office of Management and Budget, and President Bush named him to his Cabinet.

Prior to joining the Bush Cabinet, Mr. Darman was Managing Director of Shearson Lehman Hutton Inc. He joined Shearson in April 1987 upon resigning from service as the Deputy Secretary of the U.S. Treasury. At Treasury (February 1985–April 1987), Mr. Darman was a negotiator of the comprehensive tax reform legislation enacted in 1986, and of the international economic policy agreements known as "Plaza I" and "Louvre Accord."

Prior to assuming his position as Deputy Secretary of the Treasury, Mr. Darman served in the Reagan White House from January 1981 to January 1985 as Assistant to the President of the United States and Deputy to the Chief of Staff. He helped negotiate the Budget and Tax Acts of 1981, the Tax Reform Act of 1982, and the Social Security compromise of 1983. He was a member of the U.S. delegation to the summit meetings of industrialized countries from 1981 through 1986. In the Ford Administration, Mr. Darman served as Assistant Secretary of Commerce for Policy. In addition to serving at the White House and OMB, Mr. Darman has held senior policy positions in six U.S. Cabinet Departments: HEW, Defense, Justice, Commerce, State, and Treasury.

Mr. Darman's private sector experience has included the following in addition to his tenure at Shearson: Fellow of the Woodrow Wilson International Center for Scholars; Principal and Director, ICF Incorporated; member of the faculty of Harvard's Graduate School of Government; Director, American Capital and Research Corporation; Trustee, the Brookings Institution; and Contributing Editor, *U.S. News and World Report*. He is now a member of the Harvard Overseers' Committee to Visit the Kennedy School of Government.

Mr. Darman was born in North Carolina on May 10, 1943; and was raised in Rhode Island and Massachusetts. An honors graduate of Harvard College and Harvard Business School, he is married to Kathleen Emmet, Ph.D., a writer. They have two sons and live in Virginia.

MICHAEL J. BOSKIN

Michael J. Boskin is the Chairman of the President's Council of Economic Advisers. He was appointed to this post by the President on February 2, 1989, following unanimous confirmation by the Senate. As Chairman, he provides economic analysis and advice directly to the President and assists in formulating national economic policies. Dr. Boskin is on leave from Stanford University where he is the Burnet C. and Mildred Finley Wohlford Professor of Economics. He is also on leave as a Research Associate of the National Bureau of Economic Research.

Dr. Boskin is the recipient of numerous professional awards and citations, ranging from the Chancellor's Award and Department Citation as outstanding undergraduate at the University of California in 1967 and the first National Tax Association Outstanding Doctoral Dissertation Award in 1971 to the Abramson Award for Outstanding Research from the National Association of Business Economists in 1987, and Stanford University's Distinguished Teaching Award in 1988. He is the author of more than 80 books and articles in the areas of government spending, tax theory and policy, public debt, Social Security, retirement patterns and behavior, U.S. saving behavior, capital formation, U.S. economic growth, and the economic status for the elderly.

Dr. Boskin received his B.A. degree with highest honors in 1967 from the University of California at Berkeley, where he received his M.A. in 1968 and his Ph.D in 1971.

Previously, Dr. Boskin had served as a consultant and advisor to the White House, Department of Health and Human Services, Treasury Department, National Science Foundation, and other government agencies, and various Congressional Committees.

Dr. Boskin is a member of the Economic Education Committee of the American Economic Association. He and his wife, Chris, moved to Washington, D.C. from California. They both enjoy tennis and skiing.

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APPENDIX A—SELECTED BUDGET FEATURES

[In millions of dollars]

	Fiscal year—				
	1989 actual	1990 estimate	1991 request	1992 projection	1993 projection
Budget authority	1,309,913	1,337,621	1,396,476	1,451,149	1,522,732
Outlays	1,142,643	1,197,237	1,233,331	1,271,429	1,321,819
Receipts	990,691	1,073,451	1,170,232	1,246,363	1,327,561
Unified deficit	−151,951	−123,785	−63,099	−25,066	+5,742
Borrowing from trust fund surpluses	−52,800	−59,600	−78,600	−92,500	−107,300
Total, operating deficit	−204,751	−183,385	−141,699	−117,566	−101,558
Total debt subject to limit [1]	2,829.8	3,071.1	3,276.6	3,467.2	3,633.4

[1] The ceiling for the Permanent Debt Subject to Limit is currently set at $3,122.7 billion. The debt subject to limit on January 20, 1981, stood at $932,288 million.

Note: Detail may not add to totals due to rounding.

APPENDIX B1—APPROPRIATIONS REQUESTS COMPARED TO FINAL ACTION: CALENDAR YEARS 1945–1989 [1]

	Administration budget requests	Appropriations enacted	Difference (under −) (over +)
Calendar year:			
1945	$62,453,310,868	$61,042,345,331	−$1,410,965,537
1946	30,051,109,870	28,459,502,172	−1,591,607,698
1947	33,367,507,923	30,130,762,141	−3,236,745,782
1948	35,409,550,523	32,699,846,731	−2,709,703,792
1949	39,545,529,108	37,825,026,214	−1,720,502,894
1950	54,316,658,423	52,427,926,629	−1,888,731,794
1951	96,340,781,110	91,059,713,307	−5,281,067,803
1952	83,964,877,176	75,355,434,201	−8,609,442,975
1953	66,568,694,353	54,539,342,491	−12,029,351,862
1954	50,257,490,985	47,642,131,205	−2,615,359,780
1955	55,044,333,729	53,124,821,215	−1,919,512,514
1956	60,892,420,237	60,647,917,590	−244,502,647
1957	64,638,110,610	59,589,731,631	−5,048,378,979
1958	73,272,859,573	72,653,476,248	−619,383,325
1959	74,859,472,045	72,977,957,952	−1,881,514,093
1960	73,845,974,490	73,634,335,992	−211,638,498
1961	91,597,448,053	86,606,487,273	−4,990,960,780
1962	96,803,292,115	92,260,154,659	−4,543,137,456
1963	98,904,155,136	92,432,923,132	−6,471,232,004
1964	98,297,358,556	94,162,918,996	−4,134,439,560
1965	109,448,074,896	107,037,566,896	−2,410,508,000
1966	131,164,926,586	130,281,568,480	−883,358,106
1967	147,804,557,929	141,872,346,664	−5,932,211,265
1968	147,908,612,996	133,339,868,734	−14,568,744,262
1969	142,701,346,215	134,431,463,135	−8,269,883,080
1970	147,765,358,434	144,273,528,504	−3,491,829,930
1971	167,874,624,937	165,225,661,865	−2,648,963,072
1972	185,431,804,552	178,960,106,864	−6,471,697,688
1973	177,959,504,255	174,901,434,304	−3,058,069,951
1974	213,667,190,007	204,012,311,514	−9,654,878,493
1975	267,224,774,434	259,852,322,212	−7,372,452,222
1976	282,142,432,093	282,536,694,665	+394,262,572
1977	364,867,240,174	354,025,780,783	−10,841,459,391
1978	348,506,124,701	337,859,466,730	−10,646,657,971
1979	388,311,676,432	379,244,865,439	−9,066,810,993
1980	446,690,302,845	441,290,587,343	−5,399,715,502
1981	541,827,827,909	544,457,423,541	+2,629,595,632
1982	507,740,133,484	514,832,375,371	+7,092,241,887
1983	542,956,052,209	551,620,505,328	+8,664,453,119
1984	576,343,258,980	559,151,835,986	−17,191,422,994
1985	588,698,503,939	583,446,885,087	−5,251,618,852
1986	590,345,199,494	577,279,102,494	−13,066,097,000
1987	618,268,048,956	614,526,518,150	−3,741,530,806
1988	621,250,663,756	625,967,372,769	+4,716,709,013
1989	652,138,432,359	666,211,680,769	+14,073,248,410
Totals	10,249,467,607,455	10,075,912,028,737	−173,555,578,718

[1] Prepared by House Committee on Appropriations.

APPENDIX B2—APPROPRIATIONS REQUESTS COMPARED TO FINAL ACTION: FISCAL YEARS 1981–1989

	Administration budget request considered	Final congressional appropriations	Difference (under −) (over +)
Fiscal year:			
1981	$431,629,081,113	$428,425,181,587	−$3,203,899,546
1982	459,559,715,650	462,247,584,449	+2,687,868,799
1983	497,865,615,516	510,760,913,714	+12,895,298,198
1984	532,776,761,347	536,583,859,061	+3,807,097,714
1985	582,964,601,246	[1] 571,740,238,522	−11,224,362,724
1986 [2]	586,300,515,503	[3] 574,868,009,551	−11,432,505,952
1987	595,071,473,156	[4] 578,938,925,526	−16,132,547,630
1988	607,213,694,094	[5] 606,443,182,174	−770,511,920
1989	622,590,660,756	629,059,582,269	+6,468,921,513
1990 [6]	649,748,735,359	661,809,162,269	+12,060,426,910
Totals	5,565,720,853,760	5,560,876,639,122	−4,844,214,638

[1] Does not include −$5,375,000,000 rescission for Synfuels.
[2] Does include +$4,000,000,000 request of CCC and +$3,976,000,000 enacted for CCC pursuant to Budget request of 12/23/85.
[3] Does not include −$6,900,000,000 rescission for Synfuels.
[4] Includes Defense rescission of −$5,323,877,000.
[5] Includes Defense rescission of −$3,531,030,000.
[6] Action through November 22, 1989.

APPENDIX C—CAUSES OF THE DEFICIT

The Congressional Budget Office has prepared an analysis of the causes of the deficit compared with the Congressional budget plan for the fiscal years 1981 through 1989 (the analysis follows this discussion).

It is important to note that it is not the Appropriations Committee that has been a significant cause of the increase in the deficit. On average, the appropriations bills have been above the budget resolution by $2.3 billion compared to a total average deficit increase of $40.6 billion. In nearly every instance this increase has been caused by supplemental needs which were not anticipated by the Budget Committee or the Appropriations Committee.

There are three primary causes for the increase in the actual deficit over the assumed deficit, none of which is caused by the Appropriations Committee. These three categories together comprise 89 percent of the problem.

1. Economic Reestimates.—This is by far the largest contributor to the increase in the deficit. In any discussion of deficit and budget reform, a majority of the attention should be focused here, as unexciting as this category is. On an average percentage basis, this category has amounted to almost half of the problem, 46 percent.

2. Technical Estimates.—This is the second largest category of difference between the assumed and actual deficit. On average, this category has contributed $10.5 billion a year to the increase in the deficit, or 26 percent. Again, real budget and deficit reform will have to deal with this category.

3. Entitlement/Direct Spending.—This is the third category and the only major category contributing to the increase in the deficit which can be directly attributed to legislative action or inaction. This category, on average, contributed $6.9 billion to the increase in the deficit over what was assumed in the budget deficit, or 17 percent.

DIFFERENCES BETWEEN BUDGET RESOLUTION DEFICITS AND ACTUAL DEFICITS

[In billions of dollars]

Types of differences	Fiscal year—									Average 1981–1989
	1981	1982	1983	1984	1985	1986	1987	1988	1989	
Deficit in First Budget Resolution	−0.2	37.6	103.9	171.6	181.2	171.9	142.6	108.0	135.3	
Differences:										
Revenues:										
Economic reestimates	−5.0	51.9	58.0	−4.5	20.0	23.0	27.0	−3.6	−33.5	14.8
Technical reestimates	12.6	1.1	2.7	3.9	−3.3	2.1	−6.7	16.5	7.8	4.1
Legislative actions [1]	3.7	−13.0	4.6	13.7	.2	1.5	−22.1	10.9	−.7	−.1
Subtotal revenues	11.2	40.0	65.3	13.1	16.8	26.6	−1.7	23.8	−26.4	18.8
Outlays:										
Economic reestimates	6.4	24.1	.5	7.1	−5.2	−12.1	−11.9	11.7	13.9	3.9
Technical reestimates	16.0	7.7	8.1	−18.0	−12.9	20.1	13.0	12.0	11.8	6.4
Administrative actions [1]	6.6	.1	2.0	−.1	3.8	2.4	3.8	.....	−.3	2.0
Legislative actions: [1]										
Discretionary appropriations	11.7	−2.6	7.2	−2.6	1.8	1.0	2.7	−1.0	2.6	2.3
Entitlements/direct spending	4.4	5.5	7.5	3.5	16.2	10.2	.9	−1.6	15.1	6.9
Debt service	1.8	−1.8	.9	.6	1.1	.6	.7	.5	.2	.4
Subtotal outlays	46.9	32.9	26.2	−9.4	4.8	22.2	7.9	21.7	43.2	21.8
Total differences	58.1	73.0	91.5	3.7	21.6	48.8	6.2	45.6	16.8	40.6
Actual deficit [2]	57.9	110.7	195.4	175.3	202.8	220.7	148.8	153.6	152.1	

[1] Or inactions.
[2] Actuals reflect on-budget/off-budget status consistent with the Budget Resolution, for comparability.

Note: Totals may not add due to rounding.

Source: Congressional Budget Office

APPENDIX D—OUTLAYS FOR MAJOR SPENDING CATEGORIES, FISCAL YEARS 1962–1989

[In billions of dollars]

Fiscal year	National defense	Entitlements and other mandatory spending	Nondefense discretionary spending	Net interest	Offsetting receipts	Total outlays
1962	52.3	30.7	23.9	6.9	−7.0	106.8
1963	53.4	33.2	25.1	7.7	−8.1	111.3
1964	54.8	34.4	29.0	8.2	−7.8	118.5
1965	50.6	34.7	32.3	8.6	−8.0	118.2
1966	58.1	37.5	38.1	9.4	−8.5	134.5
1967	71.4	45.3	40.8	10.3	−10.3	157.5
1968	81.9	52.3	43.6	11.1	−10.8	178.1
1969	82.5	58.5	41.1	12.7	−11.1	183.6
1970	81.7	66.2	45.0	14.4	−11.6	195.6
1971	78.9	80.6	50.1	14.8	−14.2	210.2
1972	79.2	94.2	56.1	15.5	−14.2	230.7
1973	76.7	110.2	59.6	17.3	−18.1	245.7
1974	79.3	124.4	65.4	21.4	−21.3	269.4
1975	86.5	156.4	84.7	23.2	−18.5	332.3
1976	89.6	182.8	92.4	26.7	−19.7	371.8
1977	97.2	196.5	107.2	29.9	−21.6	409.2
1978	104.5	216.3	125.5	35.4	−23.0	458.7
1979	116.3	234.2	136.3	42.6	−26.1	503.5
1980	134.0	277.2	157.6	52.5	−30.3	590.9
1981	157.5	320.4	170.8	68.7	−39.2	678.2
1982	185.3	356.0	156.6	85.0	−37.2	745.7
1983	209.9	398.8	156.0	89.8	−46.1	808.3
1984	227.4	394.7	163.9	111.1	−45.3	851.8
1985	252.7	437.3	174.9	129.4	−48.0	946.3
1986	273.4	454.8	173.2	136.0	−47.0	990.3
1987	282.0	472.4	165.1	138.6	−54.2	1,003.8
1988	290.4	502.7	177.2	151.7	−58.0	1,064.0
1989	303.5	543.6	191.0	168.9	−64.2	1,142.9

Source: Congressional Budget Office.

APPENDIX E—CBO BASELINE OUTLAY PROJECTIONS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING

[By fiscal year, in billions of dollars]

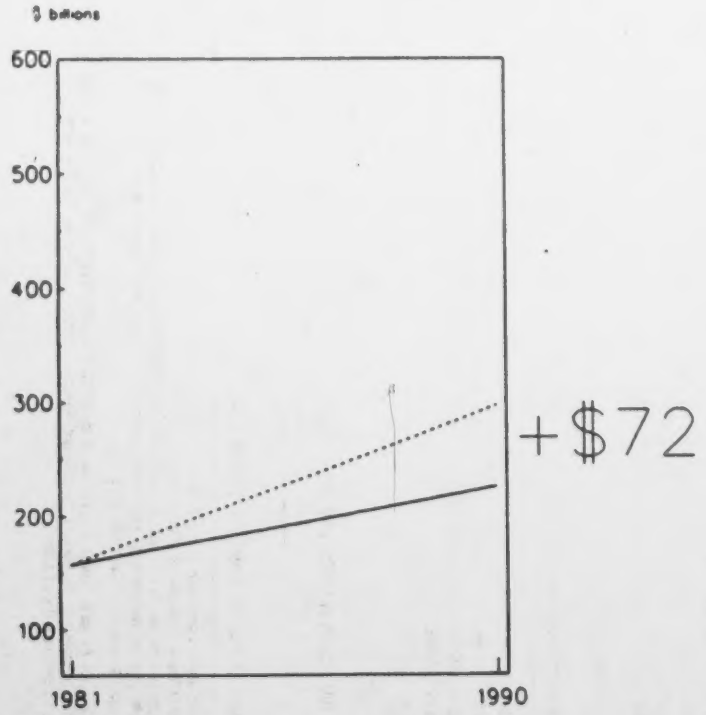
Category	Actual 1989	Base 1990	Projected 1991	1992	1993	1994	1995
Means-tested programs							
Medicaid	35	39	45	51	57	63	70
Food Stamps [1]	14	15	16	17	18	19	19
Supplemental Security Income	11	11	13	14	15	18	18
Family Support	11	12	13	14	15	15	16
Veterans' Pensions	4	4	4	4	4	4	4
Child Nutrition	5	5	5	6	6	6	6
Earned Income Tax Credit	4	4	4	5	5	5	5
Stafford Loans [2]	4	4	4	4	4	4	3
Other	1	2	2	2	2	3	3
Total, means-tested programs	89	97	108	116	125	137	146
Non-means-tested programs							
Social Security	230	247	263	280	298	316	335
Medicare	94	104	116	131	147	165	183
Subtotal	325	351	380	411	445	480	518
Other retirement and disability:							
Federal Civilian [3]	32	34	39	41	44	47	51
Military	20	22	23	24	26	27	29
Other	5	5	5	5	6	6	6
Subtotal	57	61	67	71	75	80	86
Unemployment compensation	14	15	16	17	17	18	19
Other programs:							
Veterans' Benefits [4]	15	14	15	15	15	17	16
Farm Price Supports	11	8	12	12	12	11	10
Deposit insurance	21	22	12	8	14	1	2
Social Services	5	5	6	6	5	5	5
Other [5]	8	11	10	9	9	8	8
Subtotal	59	60	54	50	56	42	41
Total, non-means-tested programs	455	487	517	548	593	621	664
Total							
All entitlements and other mandatory spending	544	584	624	664	718	758	809

[1] Includes nutrition assistance to Puerto Rico.
[2] Formerly known as Guaranteed Student Loans.
[3] Includes Civil Service, Foreign Service, Coast Guard, and other retirement programs, and annuitants' health benefits.
[4] Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.
[5] Excludes Postal Service outlays after 1989.

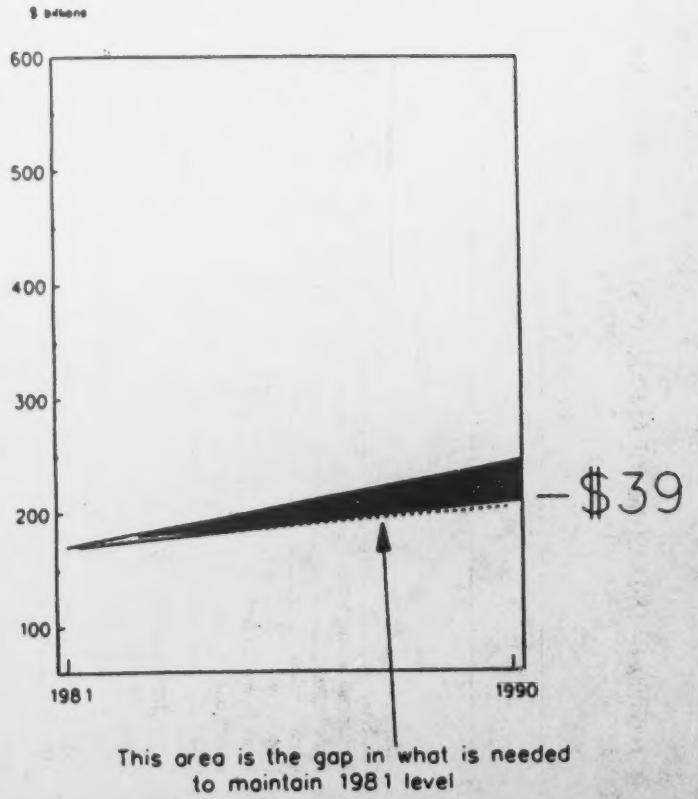
Note: Spending for major benefit programs shown in this table includes benefits only. Outlays for administrative costs of most benefit programs are classified as nondefense discretionary spending, and Medicare premium collections as offsetting receipts.
Source: Congressional Budget Office.

APPENDIX F1—1990 SPENDING COMPARED TO LEVEL NEEDED TO MAINTAIN 1981 PROGRAM

National Defense Discretionary

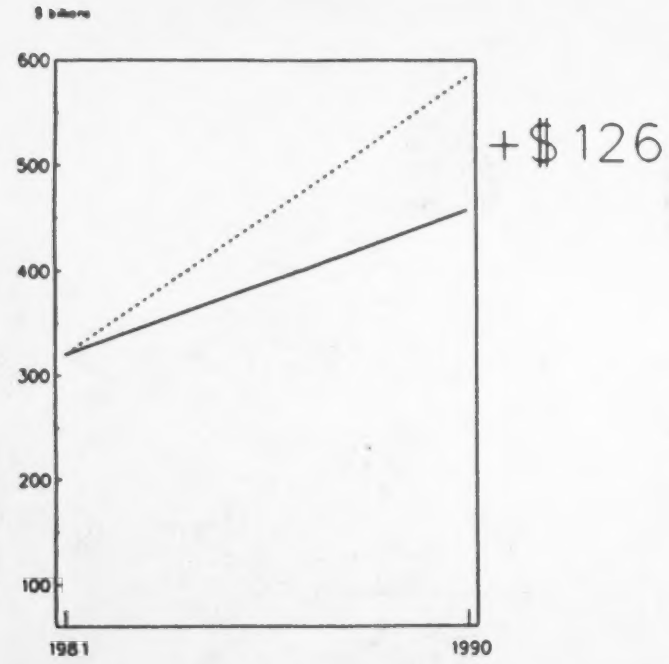


Non-defense Discretionary

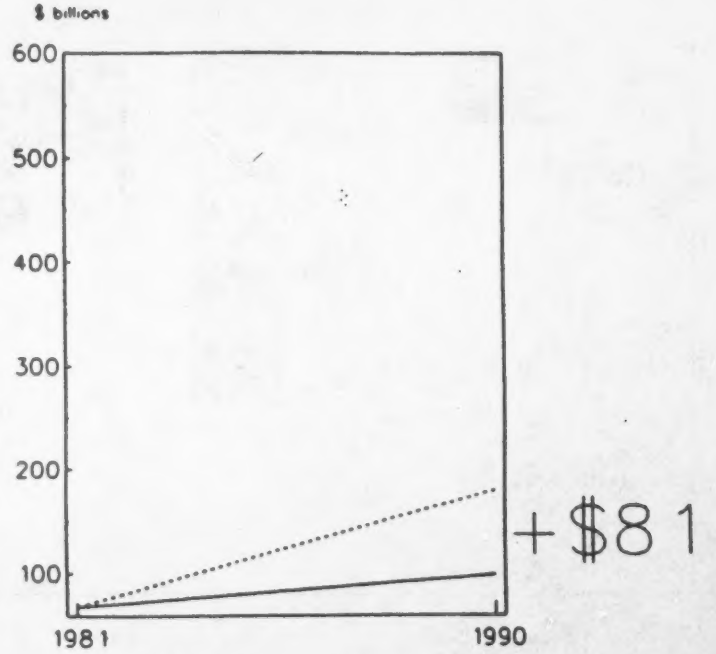


APPENDIX F1—1990 SPENDING COMPARED TO LEVEL NEEDED TO MAINTAIN 1981 PROGRAM—Continued

Entitlements / Mandatory



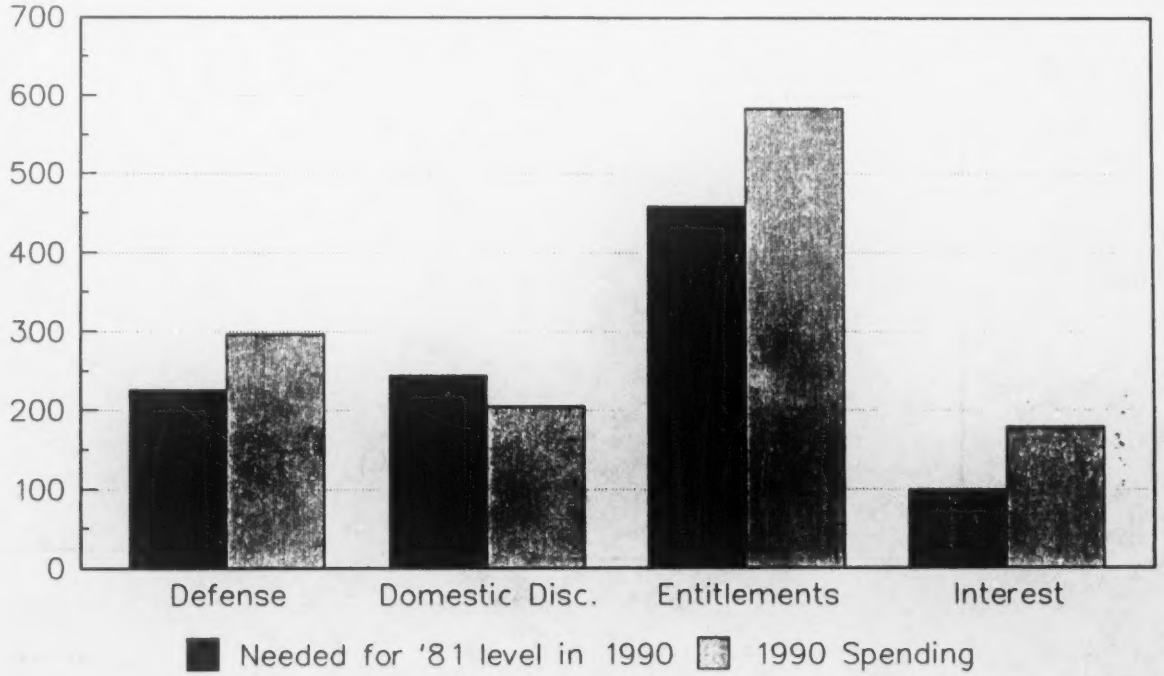
Net Interest



Source: CBO outlay data

Needed to maintain '81 level ——— Actual .....

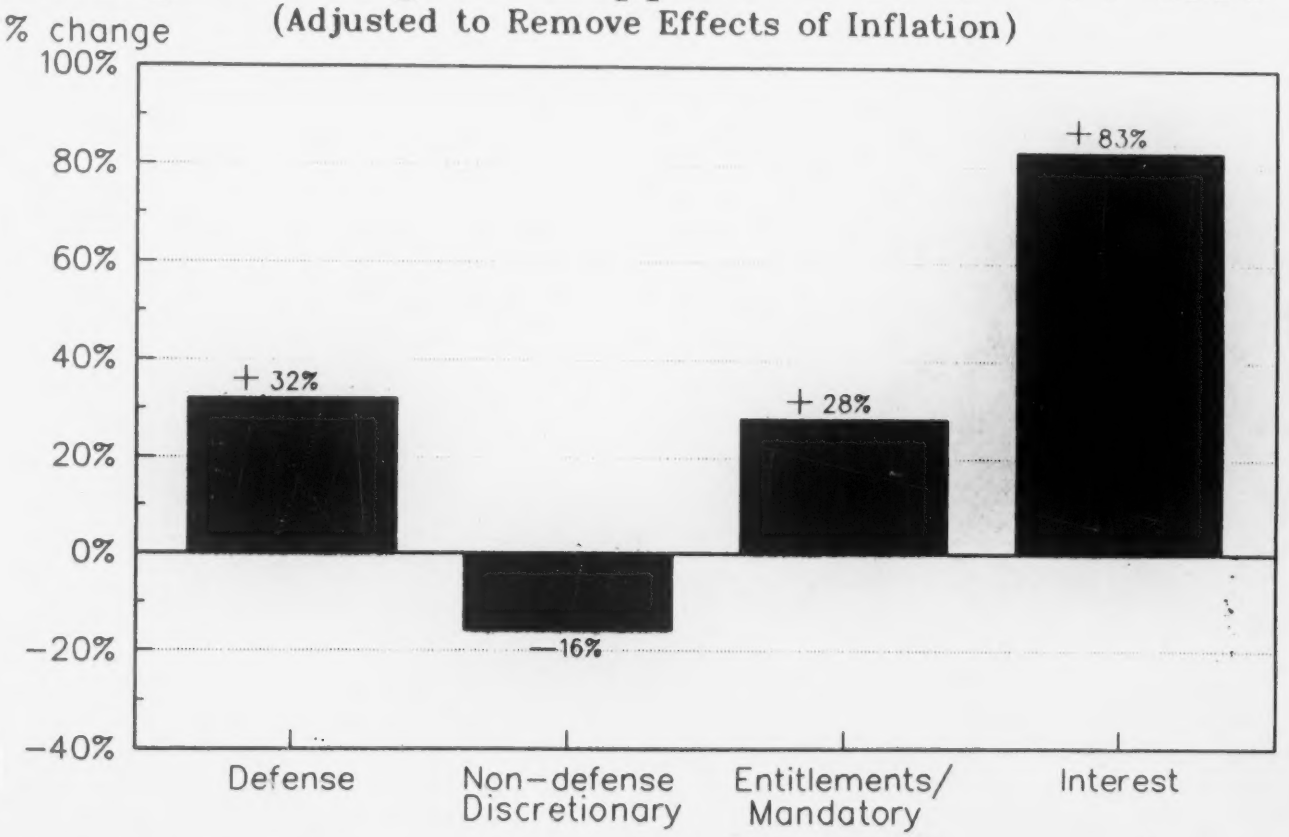
1990 Spending Compared to Level Need to Maintain 1981 Program



Source. CBO outlay data

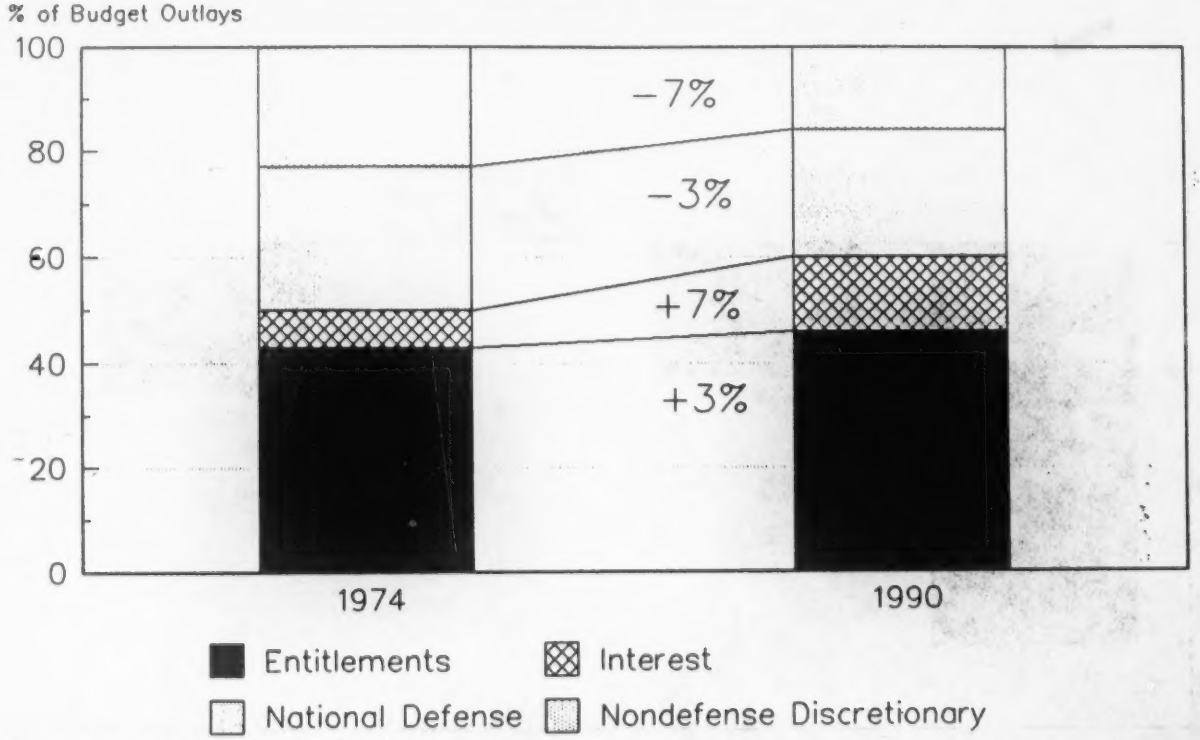
Change in Program Support FY 1981 – FY 1990

(Adjusted to Remove Effects of Inflation)



Source: CBO outlay data

APPENDIX G—CHANGE IN SHARE OF BUDGET FOR MAJOR SPENDING CATEGORIES (1974–1990)

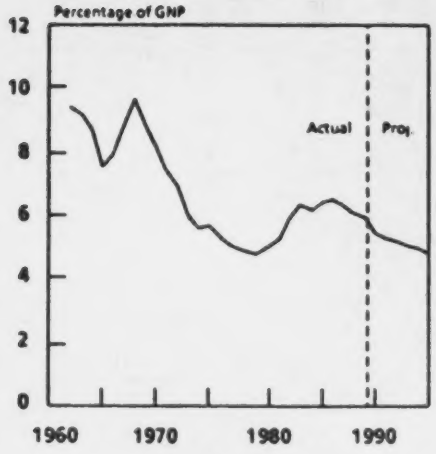


Calculations do not reflect offsetting receipts

Source: CBO outlay data

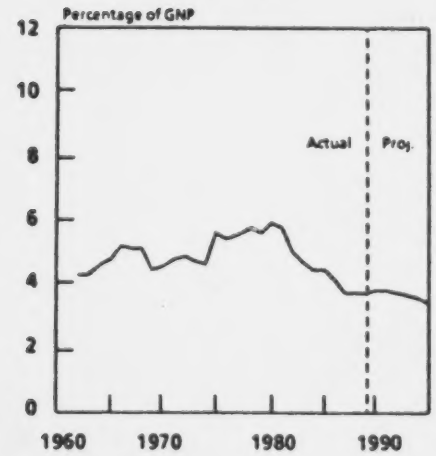
APPENDIX H—OUTLAYS BY CATEGORY AS SHARES OF GNP

National Defense

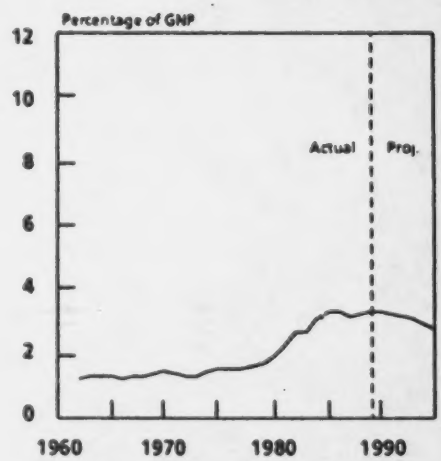


Entitlements and Other Mandatory Spending

Nondefense Discretionary Spending



Net Interest



SOURCE: Congressional Budget Office.

APPENDIX I1—OUTLAYS IN FISCAL YEAR 1982 CONSTANT DOLLARS

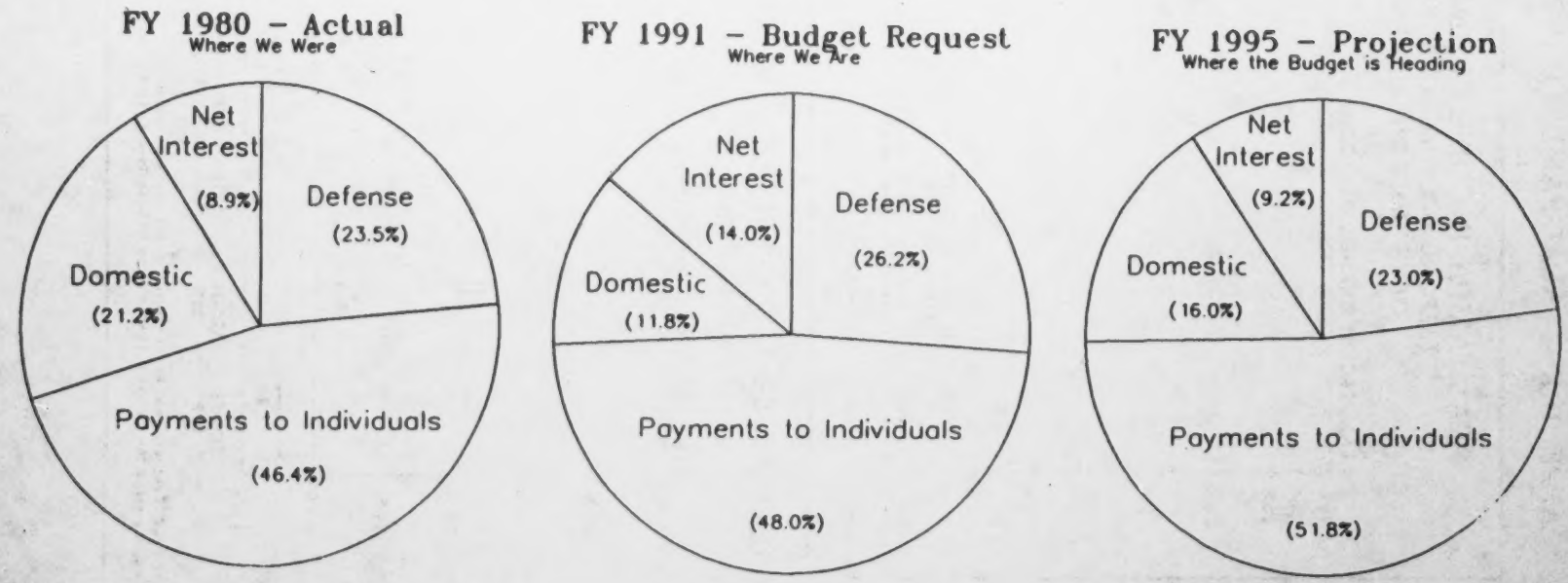
[Dollars in billions]

	1980 actual	1991 request	1995 projection	Change (percent)	
				1980–91	1980–95
Defense	$164.0	$235.5	$214.3	+43.6	+30.7
Payments to individuals	324.7	432.7	483.6	+33.3	+48.9
Domestic	148.4	106.6	149.8	−28.2	+1.0
Net interest	62.0	126.0	86.2	+103.2	+39.0
Gross outlays	699.1	900.8	933.9	+28.8	+33.6

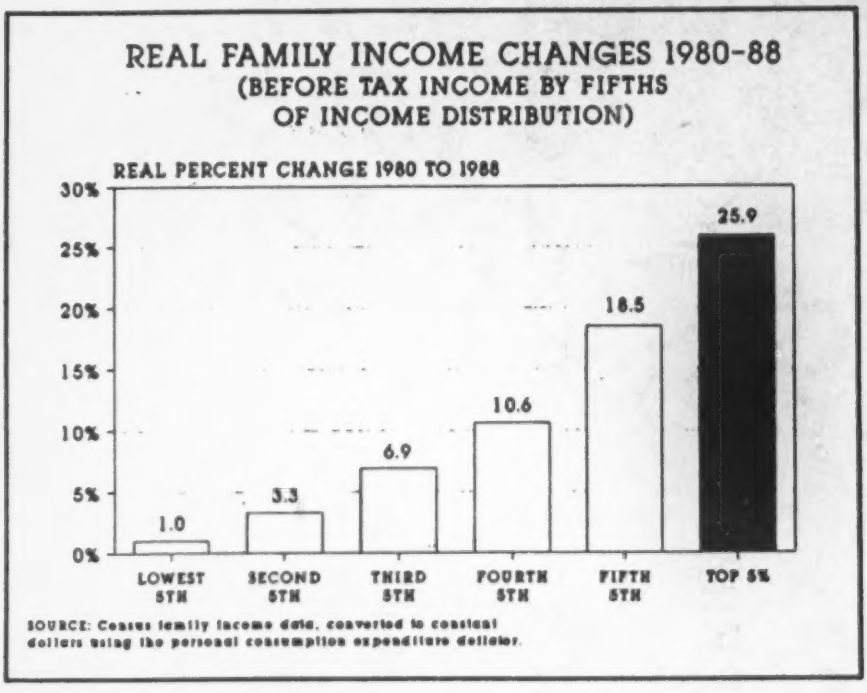
Source: Historical Tables, (table 6.1) Budget of the U.S. Government, fiscal year 1991, OMB.

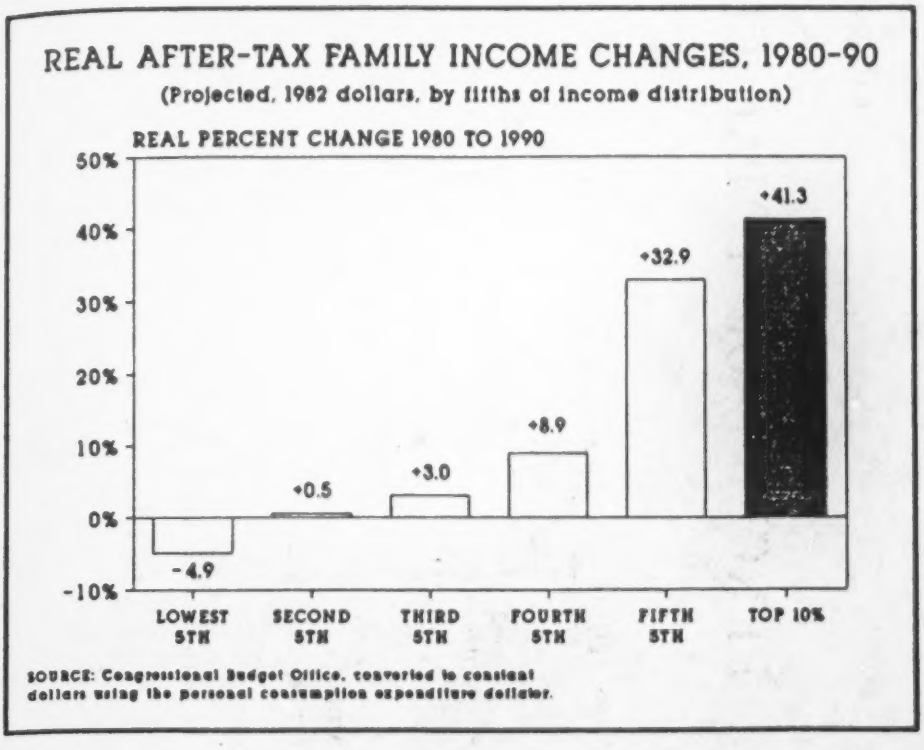
APPENDIX I2

PERCENT OF TOTAL FEDERAL SPENDING



APPENDIX I3—REAL FAMILY INCOME CHANGES





APPENDIX J—DEPARTMENT OF DEFENSE BALANCES

[In billions of dollars]

	Unobligated balances	Unexpended balances
Fiscal year:		
1975	16.7	44.0
1976 (TQ)	21.0	51.4
1977	20.0	62.6
1978	21.3	73.6
1979	23.0	83.9
1980	24.2	92.2
1981	26.5	112.8
1982	34.6	142.2
1983	43.4	172.1
1984	51.6	205.1
1985	61.5	244.3
1986	59.7	258.5
1987	47.6	260.1
1988	42.3	259.2
1989	39.9	251.0
1990 estimate	41.4	253.5
1991 estimate	41.1	255.4

APPENDIX K1—REVENUES, BY MAJOR SOURCE, FISCAL YEARS 1962–1989

[In billions of dollars]

Fiscal year	Individual income taxes	Corporate income taxes	Social insurance taxes and contributions	Excise taxes	Estate and gift taxes	Customs duties	Miscellaneous receipts	Total revenues
1962	45.6	20.5	17.0	12.5	2.0	1.1	0.8	99.7
1963	47.6	21.6	19.8	13.2	2.2	1.2	1.0	106.6
1964	48.7	23.5	22.0	13.7	2.4	1.3	1.1	112.6
1965	48.8	25.5	22.2	14.6	2.7	1.4	1.6	116.8
1966	55.4	30.1	25.5	13.1	3.1	1.8	1.9	130.8
1967	61.5	34.0	32.6	13.7	3.0	1.9	2.1	148.8
1968	68.7	28.7	33.9	14.1	3.1	2.0	2.5	153.0
1969	87.2	36.7	39.0	15.2	3.5	2.3	2.9	186.9
1970	90.4	32.8	44.4	15.7	3.6	2.4	3.4	192.8
1971	86.2	26.8	47.3	16.6	3.7	2.6	3.9	187.1
1972	94.7	32.2	52.6	15.5	5.4	3.3	3.6	207.3
1973	103.2	36.2	63.1	16.3	4.9	3.2	3.9	230.8
1974	119.0	38.6	75.1	16.8	5.0	3.3	5.4	263.2
1975	122.4	40.6	84.5	16.6	4.6	3.7	6.7	279.1
1976	131.6	41.4	90.8	17.0	5.2	4.1	8.0	298.1
1977	157.6	54.9	106.5	17.5	7.3	5.2	6.5	355.6
1978	181.0	60.0	121.0	18.4	5.3	6.6	7.4	399.6
1979	217.8	65.7	138.9	18.7	5.4	7.4	9.3	453.3
1980	244.1	64.6	157.8	24.3	6.4	7.2	12.7	517.1
1981	285.9	61.1	182.7	40.8	6.8	8.1	13.8	599.3
1982	297.7	49.2	201.5	36.3	8.0	8.9	16.2	617.8
1983	288.9	37.0	209.0	35.3	6.1	8.7	15.6	600.6
1984	298.4	56.9	239.4	37.4	6.0	11.4	17.0	666.5
1985	334.5	61.3	265.2	36.0	6.4	12.1	18.5	734.1
1986	349.0	63.1	283.9	32.9	7.0	13.3	19.9	769.1
1987	392.6	83.9	303.3	32.5	7.5	15.0	19.3	854.1
1988	401.2	94.2	334.3	35.5	7.6	16.2	19.9	909.0
1989	445.7	103.3	359.4	34.4	8.7	16.3	22.9	990.8

Source: Congressional Budget Office.

APPENDIX K2—EFFECT OF 1981–1988 LEGISLATION ON REVENUES

[Fiscal years, billions of dollars, administration estimates]

	1982	1983	1984	1985	1986	1987	1988	1989	1990	Total 1982–1990
Economic Recovery Tax Act of 1981	−36	−91	−137	−170	−210	−242	−264	−291	−323	−1,764
Legislation after 1981:										
Tax Equity and Fiscal Responsibility Act of 1982	[1] +	+17	+36	+39	+47	+57	+57	+56	+57	+366
Highway Revenue Act of 1982		+2	+4	+4	+5	+5	+5	+5	+5	+35
Social Security Amendments of 1983			+6	+9	+10	+12	+25	+31	+23	+116
Railroad Retirement Revenue Act of 1983		[1] +	[1] +	+1	+1	+1	+1	+1	+1	+6
Deficit Reduction Act of 1984			+1	+9	+16	+22	+25	+28	+31	+132
Consolidated Omnibus Budget Reconciliation Act of 1985					+1	+3	+3	+3	+3	+13
Omnibus Budget Reconciliation Act of 1986						+3	+2	+2	+1	+8
Superfund Amendments and Reauthorization Act of 1986						[1] +	+1	+1	+1	+3
Tax Reform Act of 1986						+22	−9	−24	−20	−31
Continuing Resolution for 1987						+2	+3	+3	+3	+11
Omnibus Budget Reconciliation Act of 1987							+9	+14	+16	+39
Continuing Resolution for 1988							+2	+3	+3	+8
Medicare Catastrophic Coverage Act of 1988								+1	+7	+8
Family Support Act of 1988								[1] +	[1] +	[1]
Technical and Miscellaneous Revenue Act of 1988								[1] −	[1] −	[1]
Other		−1	−2	−3	−2	−3	−3	−4	−3	−21
Subtotal		+18	+45	+59	+78	+124	+121	+120	+128	+693
Total, all legislation	−36	−73	−92	−111	−132	−118	−143	−171	−195	−1,071

[1] Less than $500 million.

Source: Budgets of the U.S. Government, Fiscal Years 1982–1990.

APPENDIX K3—RECEIPTS AND OUTLAYS OF TRUST FUNDS

[In billions of dollars]

	FY 1991 receipts	FY 1991 outlays	Incremental surplus (+) or deficit (−)
Federal old age, and survivors, and disability insurance trust funds	345.3	265.0	+80.3
Railroad retirement trust funds	10.6	10.1	+.5
Veterans life insurance trust funds	1.4	1.2	+.2
Federal employee retirement funds	56.4	32.5	+23.9
Military retirement fund	35.0	22.1	+12.9
Unemployment trust fund	25.4	20.0	+5.4
Health insurance trust funds	137.1	110.5	+26.6
Highway trust funds	16.6	15.1	+1.5
Airport and airway trust fund	6.1	6.0	+.1
Foreign military sales trust fund	8.3	8.6	−.3
Other trust funds [1]	5.7	4.0	+1.7
Deductions for intra/inter-fund transactions	−61.0	−61.0	.....
Total	586.9	434.1	+152.8

[1] Outlays include the Federal Deposit Insurance Corporation (FDIC) through August 8, 1989. Effective August 9, 1989, the permanent insurance fund of the FDIC was reclassified under law as a Federal fund.

Source: "Technical Perspectives on Expenditures, Off-Budget Activities, Capital Outlays, and Borrowing", Table F–3, p. A–86, Budget of the U.S. Government, FY 1991.

APPENDIX L1—COMPOSITION OF SEQUESTRATION BASELINE OUTLAYS

Table A–12 provides further detail on baseline outlay estimates for 1991. Under the G–R–H law, the President is granted authority to exempt all military personnel accounts from sequester. Because the notification to Congress is not required for this report, Table A–12 presents the composition of baseline estimates under two scenarios: all military personnel are exempt and no special exemptions are made. An estimated $197.0 billion of 1991 outlays for defense programs, or 64 percent of total defense outlays, are associated with budgetary resources that would be subject to an across-the-board percentage reduction if all defense accounts were sequesterable. If the military personnel accounts were exempted by the President, $119.0 billion of 1991 outlays or 39 percent of total defense outlays would be sequesterable.

TABLE A–12—COMPOSITION OF BASELINE OUTLAY ESTIMATES FOR 1991

[Dollars in billions]

	Estimate	Percent of total
Defense: [1]		
Subject to across-the-board reduction	$197.0	15.9
Exempt from sequestration	109.1	8.8
Subtotal, defense programs	306.1	24.7
Nondefense programs:		
Subject to sequestration:		
Certain programs with automatic spending increases	1.4	.1
Programs subject to special rules	106.3	8.6
Subject to across-the-board reduction	119.8	9.7
Subtotal, subject to sequestration	227.5	18.3
Exempt from sequestration:		
Social security	262.5	21.1
Net interest	173.7	14.0
Low-income programs	77.1	6.2
Federal retirement, disability, and workers compensation	70.5	5.7
State unemployment benefits	16.4	1.3
Veterans compensation and pensions	15.4	1.2
Earned income tax credit	4.4	.4
Offsetting receipts and collections	−64.2	−5.2
Other	151.7	12.2
Subtotal, exempt from sequestration	707.4	57.0
Subtotal, nondefense programs	934.9	75.3
Total	1,241.0	100.0
Memorandum:		
Defense with all military personnel accounts exempt:		
Subject to across-the-board reduction	119.0	9.6
Exempt from sequestration	187.1	15.1

[1] Excludes Federal Emergency Management Agency accounts.

Source: "Baseline Estimates," page A–35, Budget of the U.S. Government, Fiscal Year 1991.

APPENDIX L2—SEQUESTRATION CALCULATIONS

If no changes were made in the current baseline estimates before the final sequester report in October, outlay reductions of $20.7 billion, the difference between the current deficit and the target of $64 billion, would be required. The outlay reductions would be determined using the following steps, which are also outlined in Table A–13.

TABLE A–13—SEQUESTRATION CALCULATIONS FOR 1991

[In billions of dollars]

	Estimate
Required deficit reduction	20.7
Defense programs: [1]	
Total required outlay reductions	10.3
Estimated outlays associated with across-the-board sequesterable budgetary resources	197.0
Uniform reduction percentage	5.2
Nondefense programs:	
Total required outlay reductions	10.3
Estimated savings from automatic spending increases	.1
Estimated savings from the application of special rules:	
Guaranteed student loans	([3])
Foster care and adoption assistance	([3])
Medicare	1.6
Other health programs	.2
Amount remaining to be obtained from uniform percentage reductions of budget resources	8.5
Estimated outlays associated with across-the-board sequesterable budgetary resources [2]	126.7
Uniform reduction percentage	6.7
Memorandum:	
Defense with all military personnel accounts exempt:	
Total required outlay reductions	10.3
Estimated outlays associated with across-the-board sequesterable budgetary resources	119.0
Uniform reduction percentage	8.7

[1] Excludes Federal Emergency Management Agency accounts.
[2] Includes $6.8 billion in estimated 1992 outlays for the Commodity Credit Corporation that can be affected by a 1991 sequester and $4.0 billion in outlays from offsetting connections.
[3] $50 million or less.

Source: "Baseline Estimates," page A–36, Budget of the U.S. Government, Fiscal Year 1991.

APPENDIX L3—IMPACT OF SEQUESTRATION

The following is a compilation of selected federally funded programs and the impacts that would occur if sequestration is imposed.

EDUCATION

Education assistance will be curtailed or reduced in the following areas: Education for the handicapped, vocational rehabilitation for the handicapped, grants to local schools for the disadvantaged, funds for drug-free schools, funds for math and science education, funds for vocational and adult education, financial assistance for low-income college students.

LABOR

Training and employment services will be reduced for the homeless, dislocated mothers, youth, and low-income workers.

Community service employment for older Americans will be reduced.

Safety assurances for workers and miners will be reduced.

Unemployment service administration will be reduced affecting the timeliness of benefits.

HEALTH AND HUMAN SERVICES

Health care will be reduced in the following areas: Community health centers, health care for the homeless, training for doctors and nurses, maternal and child health, pediatric and AIDS patient services.

Disease prevention, control, and education programs for cancer, heart disease, Alzheimer's, AIDS, sexually transmitted diseases, and child immunization will be reduced.

The review for safe food and drugs including drugs for AIDS will be reduced.

Drug abuse treatment and research will be reduced, especially affecting the homeless.

Community Services Block Grants for low-income housing, feeding and energy assistance will be reduced.

Head Start, child abuse prevention and treatment, child welfare assistance, assistance for runaway and homeless youth will all be reduced.

Funds available to meet medical needs of Indians will be reduced and fewer patients will be treated.

Indian welfare, education, schools, and law enforcement will be reduced.

Nutrition programs for the aging and activities at senior centers will be reduced or eliminated.

Foster care assistance will be reduced.

INTERIOR

Visitor facilities at the 355 national parks and 472 refuges will have reduced operation and lower maintenance affecting the quality of the nearly 400 million visits per year at these sites.

Ground water, mineral, oil and gas, and volcanic and earthquake monitoring and hazard determinations will be reduced.

ENERGY

Monitoring of commercial nuclear reactors for safe operation will be impacted.

Energy research into alternative sources will be reduced.

Weatherization programs for low-income individuals, schools, and hospitals will be reduced.

AGRICULTURE

Safe food (meat/poultry/eggs) inspection will be reduced.

Efforts at prevention of pests (Med. Fly) and animal diseases from entering the United States will be reduced.

Provision of safe and sanitary housing for farm laborers will be reduced.

Housing repair grants for sanitation facilities for rural, low income, and the elderly will be reduced.

Loans to the very low income to purchase homes or for rent money will be reduced.

Reduced water quality and flood damages associated with a lack of soil conservation will increase.

Food For Peace assistance will be reduced.

Purchases of commodities for distribution under TEFAP will be reduced.

Food donation programs for needy families on Indian reservations and the Meals on Wheels will be reduced.

STATE

Passport issuing may be slowed.

Security at posts overseas could be reduced.

United States contribution to international organizations will be further in arrears.

JUSTICE

Prosecution of Federal drug and other criminal cases will have reduced support.

Grants to State and local law enforcement agencies will be reduced.

Overcrowding condition of prisons will be exacerbated.

Rehabilitation of prisoners will be delayed.

Technologic support for FBI investigations will be reduced.

The Drug Enforcement Administration's war on drugs will sustain reduced support services for investigations.

The ability to monitor and control movement of illegal drugs and aliens into the United States will be reduced.

THE JUDICIARY

Trial and pretrial support services will be reduced leading to some delay in trials.

COMMERCE

Periodic census effort will be reduced leading to undercounting.

The 285 local National Weather Service offices will have their data collection efforts reduced leading to less effective prediction capabilities.

The program for Economic Development Assistance will be reduced resulting in continued lower productivity for the country.

International trade initiatives in promoting exports will be reduced, and monitoring Trade Acts and Trade Agreements will be reduced.

SMALL BUSINESS ADMINISTRATION

Funds for loans to disaster victims from events such as Hurricane Hugo and the Northern California Earthquake will be reduced.

Business loan programs for minorities and the disadvantaged will be reduced.

There will be fewer surety bond guarantees made to small business firms.

FEDERAL COMMUNICATIONS COMMISSION

License processing for the 973,000 annual applications for commercial and amateur radio operators will be slowed down.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

Of the 226,000 annual employment discrimination claims, fewer will be investigated, leading to an increase in the backlog.

LEGAL SERVICES CORPORATION

Local legal services programs will be forced to reduce services.

SECURITIES AND EXCHANGE COMMISSION

Of the 5,500 investigations per year of corporations and individuals, fewer insider trading and fraud problems associated with the stock exchanges will be accomplished.

UNITED STATES INFORMATION AGENCY

Fulbright and other educational and cultural exchanges will be reduced.

BOARD FOR INTERNATIONAL BROADCASTING

Radio Free Europe and Radio Liberty will have reduced levels of programming.

TREASURY

Drug Interdiction efforts of the Customs Service will be reduced.
Efforts to fight the War on Drugs by the Bureau of Alcohol, Tobacco and Firearms will be diminished.
Revenue collection efforts of IRS would be reduced.

TRANSPORTATION

Aviation traffic control, aviation safety inspection, and maintenance technicians for the Federal Aviation Administration would be reduced.
Drug interdiction efforts by the Coast Guard will be reduced.

VETERANS AFFAIRS

Of the nearly 25 million veterans needing medical treatment, fewer will receive it, and the quality of care would be reduced as fewer doctors and nurses could be hired.

HOUSING AND URBAN DEVELOPMENT

The number of additional low-income families receiving housing assistance, usually 82,000 per year, would be reduced.
Emergency housing grants affecting the homeless would be reduced.
Community development block grants impacting city and county development programs would be reduced.

ENVIRONMENTAL PROTECTION AGENCY

Environmental compliance, abatement, control, and research programs would be reduced.
Fewer hazardous waste sites would be cleaned up.
Wastewater treatment grants would be reduced.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The number of annual shuttle launches could be reduced, new space missions delayed, and the space station program stretched out.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Emergency food and shelter grants for the homeless would be reduced.

NATIONAL SCIENCE FOUNDATION

Basic research and educational efforts would be reduced.

LEGISLATIVE; GENERAL ACCOUNTING OFFICE

The modernization of the headquarters building and the asbestos removal program will be delayed.
Audits at GAO will be reduced as well as fraud, waste, and abuse investigations.

LIBRARY OF CONGRESS

Cataloging activities will be reduced causing growing backlogs in processing book and other acquisitions.
Fewer funds for talking book cassettes, sound recordings, and braille acquisitions will reduce services to the blind and physically handicapped.

APPENDIX M1—THE PRESIDENT'S DEFICIT REDUCTION PLAN

[In billions of dollars. Deficit increase shown by "−"]

		FY 1991	5-year
GRH baseline deficit(−) or surplus(+)		−100.5	−212.3
Defense		3.2	87.5
Non-defense discretionary		−1.0	2.1
Entitlements and other mandatories		13.9	119.1
Medicare	5.5		
Civil service/military retirement	3.0		
Agriculture	1.8		
Federal employees' health	1.6		
Power marketing administrations	1.0		
All other	1.0		
Governmental receipts (revenues)		13.9	41.7
Capital gains	4.9		
IRS management, etc	3.0		
Tax accelerations	1.0		
Other receipts	5.0		
User fees, offsetting collections		5.6	23.0
Auction broadcast spectrum	2.3		
Lease naval petroleum reserve	1.0		
Other fees	2.3		
Other offsetting receipts		.6	2.8
Asset sales and loan prepayments		1.6	7.3
Net interest		1.3	37.9
Total deficit reduction		39.1	321.5
Budget deficit(−) or surplus(+)		−61.4	+109.2
Adjustment to include Postal Service Fund		+1.7	+2.1
Social Security "Debt Reduction Fund"		.0	−169.5
Administration's consolidated deficit		−63.1	−62.4

APPENDIX M2—MAJOR PROGRAM ELIMINATIONS—PRESIDENT'S PROPOSED FISCAL YEAR 1991 BUDGET

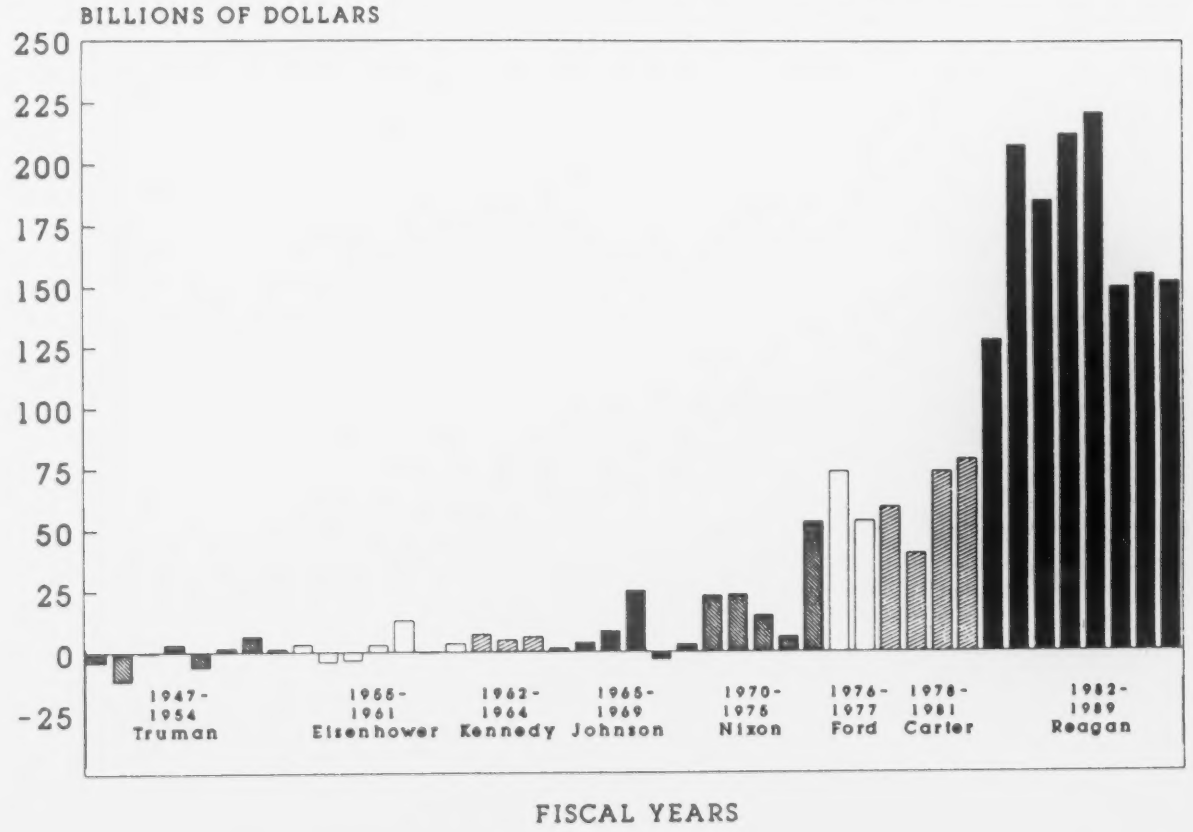
[In millions of dollars]

	Proposed 1991 budget authority reductions
DOE Energy Conservation Grants Program (including low-income weatherization)	−200
Fossil Energy	−214
Trade Adjustment Assistance for Firms	−11
EPA School Asbestos Abatement	−48
NOAA Fishery and Weather Service Programs	−121
Economic Development Administration Grant Programs	−189
TVA Economic and Community Development and Agricultural Programs	−30
Mariel Cuban Grants, Juvenile Justice	−67
Amtrak	−605
Northeast Corridor	−24
Public Telecommunications Facilities Grants	−20
Emergency Conservation Program	−10
Rural Development Grants	−16
Rural Community Fire Protection	−3
Mutual Self-Help Housing	−9
Conservation Loans	−22
Telephone Loans	−239
FFB Guaranteed Electric and Telephone Loans	−933
Capitalization of Rural Telephone Bank	−29
REA Reimbursement for Interest and Other Losses	−244
Rural Economic Development Subaccount	−5
Research and Extension Program	−26
Local Rail Service Assistance	−7
Follow Through Program	−7
Star Schools Program	−15
Native Hawaiian Education	−6
Secondary Schools Basic Skills	−5
Special Recreation for Handicapped	−3
State Student Incentive Grants	−59
Innovative Projects for Community Service	−1
Cooperative Education Program	−13
Law School Clinical Program	−5
Veterans Outreach Program	−3
Public Libraries, including construction	−98
AIDS Related Drug Payments	−30
AIDS Home Health Grants	−20
Waiting Period Drug Grants	−64
Work Incentives Program	−20
HUD Rehabilitation Loans	−87

APPENDIX M3—MAJOR PROGRAM REDUCTIONS—PRESIDENT'S PROPOSED FISCAL YEAR 1991 BUDGET

[In millions of dollars]	*Proposed 1991 budget authority reductions*
Low-Income Home Energy Assistance	−343
EPA Sewage Treatment Construction Grants	−392
Section 202 Housing for the Elderly or Handicapped	−185
Federal Highway Programs (obligations)	−1,064
Abandoned Mine Reclamation Fund	−33
Conservation Programs	−38
Rural Housing Direct Loans	−883
Rental Assistance	−42
Very Low-Income Housing Repair Grants	−3
Rural Preservation Grants	−4
Water and Sewer Loans	−80
Community Facility Loans	−24
Rural Water and Waste Disposal Grants	−109
Electrification Direct Loans	−422
Rural Telephone Bank	−52
Farm Ownership Loans	−394
Farm Insured Operating Loans	−400
Foreign Assistance Program (P.L. 480)	−81
Agriculture Extension (EFNEP)	−37
Agriculture Research	−40
Animal and Plant Health Programs	−5
FDA	−157
APHIS	−79
Nutrition Assistance for Puerto Rico	−112
Assisted Housing	−588
Community Development Block Grants	−160
Appalachian Regional Commission	−98
Corps of Engineers and Bureau of Reclamation Construction Programs	−150
District of Columbia Drug Emergency	−5
Firefighting Costs	−409
Fossil Energy Research and Development	−214
National Park Service Construction	−114
Fish and Wildlife Service Construction	−25
Indian Health Service Facilities	−58
Bureau of Indian Affairs Construction	−34
Mass Transit Formula Grants	−548
Interstate Transfer—Highway/Transit Grants	−149
Washington, DC, Subway	−47
Community Services Block Grants	−363
Impact Aid Part B Children	−99
Perkins Student Loans	−157
Health Professions Training	−139
Dislocated Workers Training	−64
Customs Service Air Interdiction	−87
Customs Service Operations	−20
Justice Department Law Enforcement	−124
Small Business Administration Direct Loans	−82
Small Business Development Centers	−20
Guard and Reserve Construction Programs	−728

APPENDIX N—FEDERAL BUDGET DEFICITS: 1947–1989



Negative values indicate surpluses